APPENDIX A

UNITED STATES COURT OF APPEALS, SECOND CIRCUIT.

Nos. 97-9606, 97-9608.

HESTER INDUSTRIES, INC., Plaintiff-Appellee-Cross-Appellant,

v.

TYSON FOODS, INC., Defendant-Appellant-Cross-Appellee.

Argued July 14, 1998.

Decided Nov. 20, 1998.

* * * * * * * * *

Robert W. Adams, Nixon & Vanderhye, P.C., Arlington, VA (Duane M. Byers, Robert A. Rowan, J. Scott Davidson, Nixon & Vanderyhe, P.C., Arlington, VA, Richard A. Kohn, Thuillez, Ford, Gold & Johnson LLP, Albany, NY, of counsel), for Plaintiff-Appellee-Cross-Appellant.

Jonathan J. Lerner, Skadden, Arps, Slate, Meagher & Flom LLP, New York City (Christopher P. Malloy, Skadden, Arps, Slate, Meagher & Flom LLP, New York City, John R. Cleary, Shughart Thomson & Kilroy, Kansas City, MO, of counsel), for Defendant-Appellant-Cross-Appellee.

Before: MINER and CABRANES, Circuit Judges, and COVELLO, District Judge.*

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* The Honorable Alfred V. Covello, Chief Judge of the United States Court for the District of Connecticut, sitting by designation.

MINER, Circuit Judge:

Defendant-appellant Tyson Foods, Inc. ("Tyson") appeals from a judgment of the United States District Court for the Northern District of New York (McAvoy, C.J.) imposing upon defendant a civil contempt fine of $8,599,272.84 based on defendant's violation of the terms of a settlement agreement that the court had referred to in its prior order dismissing plaintiff's trademark dilution action, and from orders granting partial summary judgment in favor of plaintiff Hester Industries, Inc. ("Hester"), denying defendant's motion for partial summary judgment and denying defendant's motion, pursuant to Fed.R.Civ.P. 59(e), to alter or amend the district court's judgment. Plaintiff-appellee cross-appeals from the district court's final judgment to the extent that the court's monetary award was purportedly deficient.

For the reasons that follow, we vacate so much of the judgment as imposes a fine for civil contempt and remand for further proceedings consistent with this opinion.

BACKGROUND

In August of 1989, Hester, now operating as a division of ConAgra, Inc., commenced a trademark dilution action against Tyson alleging, *inter alia*, that Tyson's use of the words "WINGS FLINGS" in connection with its sale of frozen raw chicken wings diluted Hester's "WING DINGS" mark in violation of the laws of the State of New York and other states. Hester uses its WING DINGS mark in connection with its sale of pre-cooked, pre-seasoned chicken wing products.[1]

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[1] The complaint also named the Golub Corporation, doing business as Price Chopper Supermarkets, as a defendant.

Just before trial, however, the parties entered into a settlement agreement (the "Agreement"). The Agreement was signed by the parties and attached to a "Stipulated Order of Dismissal" entered by the district court on April 9, 1992. The Agreement required Tyson to discontinue all use of the WINGS FLINGS mark. Specifically, pursuant to Section 2 of the Agreement, Tyson agreed not to order any new packaging or other materials bearing the WING FLINGS mark. Moreover, it agreed to phase out existing WING FLINGS inventory according to a prescribed schedule. Tyson estimated that existing inventory of a certain five-pound product bag "should be exhausted by September 1, 1992" and all other inventory bearing the mark "should be exhausted by December 1, 1992." The Agreement stated that "if Tyson has not exhausted its existing inventory at the end of the[se] periods, . . . Tyson will then inform Hester of the new estimated time for exhausting this inventory." However, the Agreement allowed the aforementioned cut-off dates to be extended for no longer than two months.

In the Agreement the parties also provided that the lawsuit would be dismissed by stipulation. Paragraph 6 states, in pertinent part, as follows:

> Hester will promptly dismiss with prejudice by stipulation of the parties without the entry of any judgment, injunction, or order for injunctive relief, Civil Action No. 89-CV-949 pending in the United States District Court for the Northern District of New York. However, such dismissal will be dependent on the terms of this Agreement being subjected to enforcement by specific performance by the United States District Court for the Northern District of New York. As a result, a copy of this Settlement Agreement will be filed with the Court along with the dismissal papers.

In accordance with the foregoing, the parties forwarded the fully executed Agreement to the district court to be filed with the dismissal papers. Although no judicial action was necessary for the stipulation to become effective, the district court entered a Stipulated Order of Dismissal. The district court's dismissal order, adhering to the terms of the settlement agreement, specifically disavowed the entry of any judgment. The order stated as follows:

> Pursuant to Rule 41 of the Federal Rules of Civil Procedure and in accordance with the terms of the attached Settlement Agreement between the parties, this action is hereby dismissed with prejudice, including all claims or causes of action asserted herein. Further, pursuant to the agreement of the parties in settlement, no judgment against either party will be entered and all parties will bear their own costs and attorneys' fees.

The dismissal order bears the notation "Stipulated To" followed by the signature of the parties' attorneys and the notation "So Ordered" followed by the signature of Chief Judge McAvoy. The judge made no notation on the settlement agreement, which was attached to the dismissal order.

After the deadlines set forth in the Agreement had passed, Hester learned of an advertisement for the sale of Tyson's five pound bags of WING FLINGS in the March 10, 1993 edition of the *Washington Post*. Hester then sent a letter to Tyson dated March 17, 1993, requesting that Tyson cease using the WING FLINGS mark and provide an accounting of all sales of products bearing that mark after September 1, 1992. In a response letter dated March 19, 1993, Tyson's attorney denied any wrongdoing on the part of Tyson and added that Tyson would not provide an accounting because if "ha[d] better things to do with its time."

On March 25, 1993, Hester commenced the present action, claiming that Tyson had breached the settlement agreement by continuing to use the WING FLINGS mark after the applicable cut-off dates. In addition to its contract claim, Hester claimed that Tyson had violated (1) the district court's dismissal order; (2) the terms of New York Business Law § 368-d and other state trademark dilution statutes; and (3) the trademark infringement and unfair competition provisions of 15 U.S.C. § 1114(1). On March 14, 1994, Hester amended its complaint primarily to include a tortious interference with contract claim. Hester sought, *inter alia*, a preliminary and permanent injunction against Tyson's continued offending use of the mark, treble damages, punitive damages, attorney's fees and any other relief deemed appropriate by the district court.

On June 17, 1994, Hester moved for partial summary judgment on its claims alleging breach of contract and violation of the dismissal order. In an oral ruling on August 8, 1994, the district court granted partial summary judgment for Hester, having found that defendant had breached the settlement agreement based on its admitted offending use of the mark on its packaging and invoices. *See Hester Indus. v. Tyson Foods, Inc.*, No. 93-CV-391, 1994 WL 774553, at *4-*5 (N.D.N.Y. Aug.8, 1994) (''*Hester I*''). Documents submitted to the district court by Tyson indicated, for example, that Tyson was out of compliance with the settlement agreement with respect to packaging at various times between January of 1992 and March of 1993, and between October of 1992 and October of 1993 with respect to invoices. *See id.* at *5. The court also found that the dismissal order incorporated the settlement agreement and therefore that a breach of the Agreement could serve as the basis for a finding that Tyson was in contempt of court. *See id.* at *3. Specifically, the court stated that ''the wording of the [dismissal] order logically leads one to find that the terms of the settlement agreement were conditions approved by the [c]ourt through the dismissal order and, thus, were incorporated into the order.'' *Id.* Accordingly, the court concluded that the defendant was in contempt of court for violating the dismissal order. *See id.* at *5. The court entered an order confirming its oral ruling on August 15, 1994.

Tyson moved, *inter alia*, for reconsideration of the court's order granting plaintiff's motion for partial summary judgment. The court denied Tyson's motion on August 15, 1994, having found that there was nothing in its previous order that ''present[ed] a clear error of law or an obvious injustice.'' *Hester Indus. v. Tyson Foods, Inc.*, No. 93-CV-0391, 1994 WL 774634, at *3 (N.D.N.Y. Aug.15, 1994) (''*Hester II*'').

On January 4, 1995, Hester again moved for (1) partial summary judgment on the issue of whether Tyson had breached the settlement agreement and violated the dismissal order from late in August of 1994 through mid-October of 1994; and (2) a preliminary injunction against Tyson's continued use of the WING FLINGS mark. By oral ruling on January 27, 1995, the court granted Hester's motion for partial summary judgment, having found that Tyson had further breached the settlement agreement and violated the dismissal order through offending use of the mark on its display boxes and freezer signs at various stores throughout the country between August and October of 1994. *See Hester Indus. v. Tyson Foods, Inc.*, No. 94-CV-391, 1995 WL 113939, at *1-2 (N.D.N.Y. Jan.30, 1995) (''*Hester III*''). Accordingly, the court found Tyson to be in contempt with regard to the boxes and signs. *See id.* at *3.

The court reserved decision on Hester's motion for injunctive relief and simultaneously rejected Tyson's motion for partial summary judgment, which was based on the theory that plaintiff's claims for trademark infringement, trademark dilution, unfair competition and tortious interference were precluded by res judicata and collateral estoppel. *See id.* at *3-4. However, the court found that it could not award attorney's fees to the prevailing party in a trademark dilution action, and therefore granted Tyson's motion for summary judgment on that issue. *See id.* at *7. On April 18, 1995, the district court denied plaintiff's motion for a preliminary injunction to prevent use of the mark pending outcome of the underlying suit because plaintiff had failed to make a sufficient showing of irreparable harm. *See Hester Indus. v. Tyson Foods, Inc.*, 882 F.Supp. 276, 277-78 (N.D.N.Y.1995) ("*Hester IV*").

Having addressed the pre-trial motions in the case, the district court conducted a ten-day bench trial, and thereafter filed findings of fact and conclusions of law. In its opinion, the court determined that "the sole claim to be decided . . . [wa]s whether or not, and to what extent, Tyson violated the Stipulated Order of Dismissal by continued use of the WING FLINGS mark after the deadline set forth therein." *Hester Indus. v. Tyson Foods, Inc.*, 985 F.Supp. 236, 239 (N.D.N.Y. 1997) ("*Hester V*"). The district court found that Tyson had used the WING FLINGS mark after the applicable cut-off dates in connection with (1) packaging and labels; (2) bills of lading; (3) sales orders; and (4) price lists. *See id.* at 239-42. According to the court, the total net sales dollars for all periods of Tyson's offending use of the mark totalled $30,831,958. *See id.* at 241. In fashioning a contempt finding based upon Tyson's net profits from the impermissible use of the mark, the court refused to include sales associated with the bills of lading, sales orders and invoices bearing the mark because these were internal documents and "played no discernable role in the generation of profits by Tyson." *Id.* at 245. The court also refused to count sales associated with the labels, primarily because many of the boxes bearing these labels had been relabeled before shipment and, in any event, there was insufficient evidence that Tyson had secured any profits based on these sales. *See id.* at 247-48.

The court determined that the appropriate monetary sanction would be disgorgement of Tyson's net profits from its sales relating to the offending use of the mark. The court found that these sales were in the amount of $9,732,054, *see id.* at 248, and were comprised of (1) $2,104,722 in sales of wings with packaging bearing the mark; plus (2) $8,542,422 in sales of wings to price club and retail customers where Tyson had provided such customers with price lists bearing the mark. To arrive at net profits, the court subtracted $1,132,781.16 in costs for production and processing. Therefore, the total contempt fine was $8,599,272.84 plus interest. *See id.* at 250.

The district court denied Hester's request for attorney's fees in relation to the contempt sanction, finding that Hester did not prove that Tyson "willfully sought to gain an economic benefit by using the WING FLINGS mark." *Id.* On August 11, 1997, the court entered judgment in favor of Hester. In a decision and order dated November 17, 1997, the district court denied Tyson's motion made pursuant to Fed.R.Civ.P. 59(e), to alter or amend the judgment, but granted Tyson's motion to stay execution of the judgment, provided that Tyson post a supersedeas bond in the amount of the judgment together with post-judgment interest. *See Hester Indus. v. Tyson Foods, Inc.,* 985 F.Supp. 83, 86 (N.D.N.Y.1997) ("*Hester VI*"). The bond was posted, and this appeal and cross-appeal followed.

DISCUSSION

I. Standard of Review

The district court's findings of fact are reviewed for clear error and its ultimate finding of contempt is reviewed for abuse of discretion. *See United States v. Local 1804-1, Int'l Longshoremen's Ass'n,* 44 F.3d 1091, 1095 (2d Cir.1995). "A district court would necessarily abuse its discretion if it based its ruling on an erroneous view of the law or on a clearly erroneous assessment of the evidence." *Cooter & Gell v. Hartmarx Corp.,* 496 U.S. 384, 405, 110 S.Ct. 2447, 110 L.Ed.2d 359 (1990). We have held, however, that "because the power of a district court to impose contempt liability is carefully limited, our review of a contempt order for abuse of discretion is more rigorous than would be the case in other situations in which abuse-of-discretion review is conducted." *EEOC v. Local 638,* 81 F.3d 1162, 1171 (2d Cir.1996)(quotation omitted).

II. Authority for Contempt Finding

Tyson contends that the district court lacked the authority to hold it in contempt of court for violating the district court's "Stipulated Order of Dismissal." We agree. Dismissal was effectuated by stipulation, or mutual agreement of the parties, and did not require any judicial action. Moreover, the Agreement prohibited the court from entering an injunction.

Contrary to Hester's claims that its trademark dilution action was dismissed pursuant to Fed.R.Civ.P. 41(a)(2) because it submitted a dismissal order to the district court for its "review, approval and signature," we believe that the underlying trademark dilution and infringement action between Tyson and Hester was dismissed in 1992 pursuant to Fed.R.Civ.P. 41(a)(1)(ii). Rule 41(a)(1) provides two means by which a plaintiff may voluntarily dismiss a federal court action without obtaining the consent of the district court. *See* 9 Charles Alan Wright & Arthur R. Miller, Federal Practice and Procedure § 2363 (1995). The action may be dismissed (i) prior to the service of an answer or of a motion for summary judgment if the plaintiff files a notice of dismissal with the court; or (ii) at any time by stipulation of all parties. *See* Fed.R.Civ.P. 41(a)(1). "A dismissal by stipulation is . . . a mutual agreement by all the parties." *Poloron Prod., Inc. v. Lybrand Ross Bros. & Montgomery,* 534 F.2d 1012, 1017 (2d Cir.1976).

There is no basis for concluding that the dismissal order was made pursuant to Rule 41(a)(2), which addresses circumstances in which dismissal can only be accomplished by order of the court "and upon such terms and conditions as the court deems proper." Fed.R.Civ.P. 41(a)(2). Rule 41(a)(2) does not apply to circumstances where plaintiff can secure consent to a stipulated dismissal. *See Zagano v. Fordham Univ.*, 900 F.2d 12, 14 (2d Cir.1990). Because all of the parties stipulated to dismissal in the underlying action, the dismissal of the case was pursuant to Rule 41(a)(1)(ii) and not by order of the district court. *See* 9 Wright & Miller, Federal Practice and Procedure § 2364 ("If an answer or a motion for summary judgment has been served, the plaintiff no longer has the right to dismiss and, unless all of the parties stipulate to dismissal, a plaintiff who wishes to dismiss must obtain an order of the district court.") (footnotes omitted). The judge's signature on the stipulation did not change the nature of the dismissal. Because the dismissal was effectuated by stipulation of the parties, the court lacked the authority to condition dismissal on compliance with the Agreement. *See Republic of Philippines v. Westinghouse Elec. Corp.*, 43 F.3d 65, 81 n. 21 (3d Cir.1994) ("[U]nder Fed.R.Civ.P. 41(a)(1)(ii), parties to a civil action may stipulate to a dismissal of an action at any time. A court has no authority to disapprove or place conditions on any such dismissal."); *In re Wolf,* 842 F.2d 464, 466 (D.C.Cir.1988) (per curiam) ("'[C]aselaw concerning stipulated dismissals under Rule 41(a)(1)(ii) is clear that the entry of such a stipulation of dismissal is effective automatically and does not require judicial approval.'") (quoting *Gardiner v. A.H. Robins Co.,* 747 F.2d 1180, 1189 (8th Cir.1984)).

Further, the court lacked authority to impose compliance with the settlement agreement as a condition of dismissal because that kind of condition is tantamount to a mandatory injunction. Paragraph six of the Agreement states that there will be no "entry of any judgment, injunction, or order for injunctive relief" in connection with the dismissal. The "Stipulated Order of Dismissal" incorporated this requirement by stating that "pursuant to the agreement of the parties in the settlement, no judgment against either party will be entered . . . ." To construe the "Stipulated Order of Dismissal" as a court order prohibiting continued use of the WING FLINGS mark would require that we equate the dismissal order with an order requiring entry of an injunction. *See International Longshoremen's Ass'n v. Philadelphia Marine Trade Ass'n,* 389 U.S. 64, 75, 88 S.Ct. 201, 19 L.Ed.2d 236 (1967) (ruling that an order compelling parties to comply with an agreement is a "mandatory injunction."). Therefore, we cannot conclude that the "Stipulated Order of Dismissal" in the instant case ordered Tyson to comply with the terms of the Agreement and that noncompliance with the Agreement therefore was a valid basis for a contempt finding.[2]

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[2] The Supreme Court has suggested, in *Kokkonen v. Guardian Life Ins. Co.,* 511 U.S. 375, 114 S.Ct. 1673, 128 L.Ed.2d 391 (1994), that a district court is authorized, with the consent of the parties, to retain jurisdiction to enforce a settlement agreement that serves as the basis for a stipulated dismissal pursuant to Rule 41(a)(1)(ii). However, we conclude that the text of the dismissal order at issue here, which we have set

Even though the district court lacked a valid basis for a contempt finding, the court meticulously made findings of fact during the course of several hearings. These findings on ill-gotten gains damages may be applied to one or more of the remaining causes of action, such as breach of contract or Lanham Act claims, if the findings are germane to the particular cause upon which liability is predicated.

III. Hester's Cross-Appeal

Hester argues on cross-appeal that the district court committed "ministerial error" by failing to include in its calculation approximately $11.6 million in sales of WING FLINGS involving offending use of the mark on retail price lists during the period of August 29, 1992 through April 1, 1993. This argument was apparently raised in a cross-motion to alter or amend the judgment in this case, pursuant to Rule 59(e), but was not addressed by the district court.

The district court found that Tyson's use of the mark on retail price lists lasted for approximately one month (July 26, 1992 through August 29, 1992). Hester argues primarily that, despite its assertion in its post-trial brief that Tyson's retail price lists were used for the entire period of July 1, 1992 through April 1, 1993, the district court inadvertently eliminated the period of September 1, 1992 through April 1, 1993 because Hester had suggested to the court that counting

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forth above, did not clearly communicate an intention of the parties and of the district court that the parties' settlement agreement be incorporated into the order.

that time period would duplicate the portion of the award based on certain invoices and sales orders from the same period. The court appears to have eliminated this time period, although it did not base any portion of the award on the use of the mark on these invoices and sales orders over that period. Accordingly, on remand, we invite the court to revisit the time period during which Tyson was out of compliance should it determine to apply its findings on damages to one or more of the remaining causes of action.

CONCLUSION

In sum, we hold that: (1) the plaintiff's original action was dismissed by stipulation of the parties pursuant to Fed.R.Civ.P. 41(a)(1)(ii); (2) the "Stipulated Order of Dismissal" could not properly serve as the basis for a contempt finding; and (3) the district court's findings of fact regarding damages may be used in connection with other claims, if applicable. The judgment of the district court is vacated to the extent it imposes a fine for civil contempt, and the case is remanded to the district court for further proceedings in accordance with the foregoing.

APPENDIX B

Not Reported in F.Supp.
(cite as: 1994 WL 774553 (N.D.N.Y.))

UNITED STATES DISTRICT COURT,
N.D. NEW YORK.

No. 93-CV-391.

HESTER INDUSTRIES, INC., Plaintiff,

v.

TYSON FOODS, INC., Defendant.

Aug. 8, 1994.

Robert W. Adams, Duane M. Byers and Robert A. Rowan of Nixon & Vanderhye, Arlington,VA, Richard A. Kohn of Kohn, Bookstein & Karp, Albany, NY, for Hester.

John R. Cleary and Karen Halbrook of Husch & Eppenberger, Kansas City, MO, David M. Gouldin of Levene, Gouldin & Thompson, Binghamton, NY, for Tyson.

FOLEY, District Judge.

*1 TRANSCRIPT OF PROCEEDINGS held in and for the United States District Court, Northern District of New York, at the James T. Foley United States Courthouse, 445 Broadway, Albany, New York 12207, on Monday, August 8, 1994, before the HON. THOMAS J. McAVOY, Chief United States District Court Judge.

Summary judgment, as I have stated already twice before in connection with two other cases, is appropriate when no genuine issues of material fact exist and, thus, the moving party is entitled to judgment as a matter of law. Again, there must be more than a metaphysical doubt as to the material facts. Delaware & Hudson Railway v. Conrail, 902 Fed2d 174, quoting Matsushita Electric Company v. Zenith Radio Corp., 475 US 574. All ambiguities must be weighed in favor of the non-moving party. Ramseur v. Chase Manhattan Bank, 865 Fed2d 460. Only when reasonable minds could not differ as to the import of the evidence is summary judgment proper. Bryant v. Maffucci, 923 Fed2d 979, cert. denied, 112 Supreme Court 152.

Now, the plaintiff claims that there's no outstanding genuine issue of material fact as to whether Tyson breached the settlement agreement. In Tyson's response to Hester's requests for admission, Tyson agreed that it was not in compliance with the settlement agreement and that it sold Wing Flings beyond the December 1, 1992, deadline. Both sides concur that the settlement agreement was valid.

However, defendant claims that there are still genuine issues of material fact outstanding which preclude summary judgment on Count I. Defendant asserts that its breach was limited to packaging only and did not extend the order to bills of lading and invoices. Defendant claims that its sales order and bills of lading orders are not addressed by the settlement agreement so use of the Wing Flings' marking on these items did not amount to a breach of the settlement agreement. Defendant asserts that the use of Wing Flings' marking on internal corporate documents and papers accompanying shipments was not what was intended by the parties in the use of the word trademark because it would not be likely to cause confusion, mistake or deception as to the source of the affiliated products.

Because the defendant claims the breach was limited, it also claims that the remedies sought by the plaintiff for the breach are out of proportion. Furthermore, defendant claims that the breach was not willful and so to grant summary judgment on Count I in favor of the plaintiff would be to hold that Tyson's breach was willful and deliberate, a point which defendant asserts is a genuine issue of material fact for the jury.

Plaintiff claims in rebuttal that it's not attempting to establish the willfulness of the defendant's breach at this time but is only attempting to establish liability for breach of a settlement agreement. According to Federal Rules of Civil Procedure 56(c) and (d), it is allowable to grant partial summary judgment and specify which issues are settled and which involve remaining material issues of fact. So, the Court, in its decision, will limit itself to the issue of liability for breach of the settlement agreement and will not determine whether that breach was willful. Accordingly, based on the evidence supplied by the plaintiff end the admission by the defendant that it breached the settlement agreement as to the use of Wing Flings packaging, the Court finds that the defendant is liable for breach of the settlement agreement without determining at this time whether that breach was willful.

*2 In regard to the invoices, sales orders and bills of lading. Tyson declares that it did not breach the agreement because such materials were not covered by the agreement. However, Tyson has admitted that invoices were covered by the agreement in deposition testimony. Tyson stated in its response to plaintiff's second set of requests for admissions that during a certain period, the invoices for Wing Flings products were out of compliance with the agreement. The deposition testimony of Donald Wray, Tyson's chief operating officer, supports this admission, as does the deposition testimony of Larry Ward, an attorney for Tyson. Donald Wray's subsequent affidavit stating that invoices, sales orders and bills of lading were never contemplated as part of the settlement agreement, thus attempting to refute his earlier deposition statement that Tyson was out of compliance on invoices, cannot change the Court's decision to grant summary judgment. It's well settled in this Circuit that a party's affidavit which contradicts his own prior deposition testimony should be disregarded on a motion for summary judgment. Mack v. United States, 814 Fed2d 120. So, Tyson has admitted a breach as to the invoices for Wing Flings and so summary judgment is granted in favor of the plaintiff and this issue-on this issue as well. In sum, summary judgment is granted in favor of the plaintiff on the issue of liability only for Count I of the complaint with respect to packaging and invoices with the marking Wing Flings.

Now, plaintiff also seeks summary judgment in its favor finding that defendant is in contempt of the dismissal order accompanying the settlement agreement. Defendant refutes this by arguing that the settlement agreement is not incorporated in the dismissal order and that even if it was a settlement agreement is not specific enough to support a finding of contempt. Also Tyson argues that since specific enforcement is the agreed remedy in the settlement agreement, the plaintiff cannot seek a finding of contempt as a remedy.

First, Tyson asserts without any supporting authority that the dismissal order signed by the Court is not capable of being violated because the order specifically states that it is not a judgment, injunction or order for injunctive relief and that no judgment against either party will be entered. 18 US Code Section 401(3) states, however, that contempt may be found for disobedience or resistance to the Court's lawful writ, process, order, rule, decree or command. Furthermore, case law shows that contempt for violating a Court order can be found even though it does not involve a judgment or injunctive relief. See Morales Feliciano versus Hernandez Colon, 697 FedSupp 26; Little Rock School District versus Pulaski County Special School District, 666 FedSupp 159.

The order in this case specifically states that dismissal was pursuant to Rule 41 of the Federal Rules of Civil Procedure and in accordance with the terms of the attached settlement agreement between the parties. Federal Rule of Civil Procedure 41(a)(2) states that an action shall not be dismissed at the plaintiff's insistence save upon order of the Court and upon such terms and conditions as the Court deems proper. Therefore, in this case, the terms and conditions outlined in the settlement agreement are those deemed proper by the Court as conditions for dismissal. Thus, a breach of the settlement agreement would logically lead to a breach of the order since the terms of the settlement agreement were conditions of the dismissal order.

*3 Defendant cites to NBA Properties, Inc., v. Gold, 895 Fed2d 30, for the concept that a breach of a settlement agreement cannot lead to a finding of contempt of a court decree. The NBA case, however, involved a situation where the court decree did not even make reference to the settlement agreement. NBA Properties at 34. Thus, the NBA case does not create a rule applicable to case such as this where the court order specifically states that it's being entered in accordance with the terms of an attached settlement agreement.

It is true that the mere mention of a settlement agreement in a dismissal order is not enough to make the agreement itself part of the Court's order. Musifilm versus Spector, 568 FedSupp 578. However, it is settled law that a Court is not required to use explicit language or any magic form of words to effect a valid incorporation of an agreement into an order. Interspiro USA, Inc., v. Figgie International, Inc., 18 Fed3d at 927. Although the defendant has cited to cases in which the judge actually signed the settlement agreement as a basis for retaining jurisdiction over its enforcement, defendant has shown no need for the judge to sign the settlement agreement itself in order to allow contempt proceedings based on the incorporation of the settlement agreement into the court order.

The Court does not find that the order in the Musifilm case is directly analogous to the order at issue in this case, as the defendant suggests. In Musifilm, the order stayed that it is hereby stipulated and agreed by and between the attorneys for the plaintiff and the attorneys for the defendants pursuant to the settlement of agreement of even date between said parties, that subject to the approval of the Court the within action shall be and the same hereby is dismissed with prejudice and without costs. That's Musifilm at 580 note 1.

However, the order in this case did more than mention the settlement agreement. As discussed before, the wording of the order logically leads one to find that the terms of the settlement agreement were conditions approved by the Court through the dismissal order and, thus, were incorporated into the order.

Likewise, in the Interspiro case, the Court found that the order incorporated the terms of the agreement where the order stated the parties hereto have entered into an agreement settling the issues before the District Court and by and through their attorneys and pursuant to that agreement hereby stipulate that the complaint and counterclaim be dismissed with prejudice. Interspiro at 930. In comparison to the language and agreement in that case, in which the Court found incorporation, the Court finds the language of the order in this case incorporates the settlement agreement. So, a finding of contempt is possible.

The next question is whether or not contempt is warranted. A Court has the inherent power to hold a party in civil contempt in order to enforce compliance with an order of the Court or to compensate for losses and damages.

Powell v. Ward, 643 Fed2d 924; citing McComb versus Jacksonville Paper Company, 336 US 187. In order to find a party in contempt, the order must be clear and understanding ambiguous; the proof of non-compliance must be clear and convincing; and there must be a showing that defendant has not been reasonably diligent and energetic in attempting to do what has been ordered. Powell at 931.

*4 In this case, it is clear that the order is clear and unambiguous. It incorporates all the terms of the settlement agreement signed by the parties, including the requirements of paragraphs one and two which detail what items Tyson must stop using. These include five-pound bags of number 141—type number 141 bearing the marking Wing Flings and all other inventory bearing the Wing Flings mark.

Furthermore, according to paragraph two, Tyson agreed that it would not have any new packaging or other materials produced bearing the Wing Flings' mark after the effective date of the agreement. Although Tyson now argues that they don't understand what this means, the Court feels certain that broad language of the agreement clearly includes invoices and packaging with the Wing Flings mark. This is especially true given the fact that Tyson admitted a breach in relation to the invoices and packaging. If Tyson was not aware that invoices and packaging were to be included under the terms of the agreement, then why did it admit to a breach regarding these items?

Mr. Wray now states in his affidavit that paragraphs one and two of the agreement do not make clear whether invoices are covered. Nevertheless, Mr. Wray previously admitted in deposition that changes on the company's invoices were made because the word Wing Flings appeared on them and to adhere to the agreement the word had to be changed. That's Wray's deposition at page 100. Tyson admitted its breach of the agreement with regard to invoices so it must have assumed they were covered by the terms of the agreement.

Based on these facts, the Court cannot find ambiguity in the terms of the agreement. The language of the agreement makes clear that all packaging and invoices are included under its terms and, thus, were incorporated into the order.

As just discussed, Tyson has admitted non-compliance in regards to the use of packaging and invoices. Thus, the proof of their non-compliance is clear and convincing. The only question remaining is whether Tyson was diligent in attempting to comply. After the December 1, 1992, deadline, Tyson continued to use packaging with the Wing Flings mark. Tyson discovered this non-compliance during December of 1992 but did not report the non-compliance to Hester as required by the terms of the agreement. Wray deposition at 37 and 46. Tyson representatives admitted in deposition testimony that they knew of the packaging breach in December of 1992 but decided it was not major enough to inform Hester. Wray deposition at 46, ward deposition at 89.

Hester informed Tyson that it had discovered the non-compliance through a letter dated March 17, 1993, and asked for an immediate full accounting of the sales of Wing Flings after September 1, 1992. In response, Tyson's attorney, Richard Lione, refused to give an accounting and responded that if Hester wants such details it would have to provide more specific information as to the alleged sale of Wing Flings after September 1, 1992, otherwise, quote, Tyson has better things to do with its time, closed quote. Letter from Tyson to Hester, March 19, 1993. However, the deposition testimony of Mr. Wray and Mr. Ward makes it clear that Tyson knew of certain breaches of the agreement as of December 1992 and so was not straightforward with Hester in responding to the letter.

*5 In its admissions for this suit, Tyson later supplied charts showing the items and times which were out of compliance for both the invoices and packaging. These charts show that packaging was out of compliance for various periods for different items spanning the month ending January 2, 1992, to the month ending March 6, 1993. Invoices were out of compliance for certain items spanning the month ending October 3, 1992, through the month ending October 2, 1993. Tyson admits that it did not discover the invoices were out of compliance until the summer of 1993 and Larry Ward examined the invoices and told Tyson to change them in July of 1993. Ward deposition at 89, 91.

However, this extensive lag in discovering the problem shows that Tyson was not using due diligence in assuring the agreement was kept. The only evidence showing that Tyson made a valid attempt to comply with the agreement is that it destroyed $12,000 worth of Wing Flings packaging in January 1993. However, its packaging non-compliance continued beyond this date as did its invoice non-compliance. Based on this information, the Court finds a lack of reasonable diligence by Tyson in conforming to the agreement incorporated in the dismissal order. The Court finds clear and convincing evidence of contempt in regard to packaging and invoices bearing the Wing Flings' mark.

So, in conclusion, the Court denies the appeal of Magistrate's discovery order and dismisses it. The Court holds that Tyson breached the settlement agreement in regard to invoices and packaging. It's also in contempt of the dismissal order incorporating the settlement agreement in regards to invoices and packaging.

So, partial summary judgment is granted in favor of the plaintiff on Counts I and II to the extent previously mentioned by this Court's order this afternoon.

So, if you want to submit an order.

Thank you, ladies and gentlemen.

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APPENDIX C

Not Reported in F.Supp.
(Cite as: 1995 WL 113939 (N.D.N.Y.))

UNITED STATES DISTRICT COURT,
N.D. NEW YORK.

94-CV-391.

HESTER INDUSTRIES, INC., Plaintiff,

v.

TYSON FOODS, INC., Defendant.

Jan. 30, 1995.

Nixon & Vanderhye, PC by Robert W. Adams, Duane M. Byers, Arlington, VA, for plaintiff.

Husch & Eppenberger by John R. Cleary, Karen J. Halbrook, Kansas City, MO, for defendant.

McAVOY, Chief Judge.

THE COURT: All right. As you've heard earlier today, probably more than once, summary judgment is appropriate when no genuine issue of material fact exists and so the moving party's entitled to judgment as a matter of law. Rule 56(c). There must be more than a metaphysical doubt as to the material facts. Delaware and Hudson Railway v. Conrail, 902 Fed 2d 174, 178, quoting Matsushita Electrical Industrial Company v. Zenith radio, 475 US 574, 586. All ambiguities must be weighed in favor of the nonmoving party. Ramseur v. Chase Manhattan Bank, 865 Fed 2d 460 and 465. Only when reasonable minds could not differ as to the import of the evidence is summary judgment proper.

Bryant v. Maffucci, 923 Fed 2d 979, 982, cert. denied 112 Supreme Court 152.

Now, the plaintiff claims that there are no outstanding genuine issues of material fact as to whether Tyson breached the settlement agreement during the period in late August 1994 to mid October 1994. Plaintiff points specifically to an incident at Tyson's Blountsville, Alabama processing plant where ID labels marked with the name Wing Flings were used on cases of wings shipped to customers owned by the Price Costco Company. Defendant Tyson admits the Wing Fling ID labels were found in the Blountsville plant and two other plants during this time but that they were destroyed in October of 1994. That's in the Jensen affidavit at paragraphs 9 and 13. Plaintiff documents numerous other examples during this time period where it sent representatives to various stores around the country and found freezer signs and display boxes marked with the name Wing Flings. Plaintiff's Exhibits 21 and 101 and Exhibit 22 through 38.

Defendant does not present evidence to refute these incidents but rather only addresses the problem at the Blountsville plant and argues that it does not represent a breach of the settlement agreement because it has been reasonably diligent in carrying out its duties under the settlement agreement and this incident was isolated and quickly remedied. Defendant also argues that the settlement agreement does not require it to notify its customers that it should not use the name Wing Flings. Nevertheless, Tyson cites several examples of its actions to enforce the settlement agreement and to inform its customers of the change.

Defendant argues only that the problem at the Blountsville plant does not constitute a breach of the settlement agreement because the scope of the settlement agreement was not intended to treat as a breach the type of conduct which occurred in the Blountsville incident. Tyson argues that the incident was limited in scope and was quickly corrected and so should not be treated as a breach. Defendant also appears to argue that the terms of the settlement agreement are ambiguous, thus presenting a triable issue of fact which precludes summary judgment as to the problem with the Blountsville plant. However, defendant does not point to which terms of the agreement it believes to be unclear.

The Court, of course, has previously found the terms of the settlement agreement to be unambiguous as to the fact that packaging and invoices were to be covered by it. See transcript of August 8, 1994. The Court stated in its decision on August 8, 1994 that the language in the agreement makes it clear that all packaging and invoices are included under its terms and thus were incorporated into the order. The language of the agreement makes it clear that all packaging and invoices are included under its terms and thus were incorporated into the order. The agreement states in part that Tyson agrees to stop all use of the mark Wing Flings in association with poultry products and states that except for five pound bags, all other inventory bearing the Wing Flings marks should be exhausted by December 1, 1992. That's paragraphs 1 and 1-A of the settlement agreement. If compliance could not be attained by the December 1, 1992 deadline, Tyson was to notify Hester but in no case was the use of the Wing Flings mark to continue beyond an additional two months. Settlement agreement of paragraph 2. The Court cannot find any way to categorize the freezer display boxes involved in this incident as something other than packaging, nor has Tyson suggested a way. Thus, since the Court determined that agreement was not ambiguous as to packaging during the previous motion, it must follow this decision again. There is no genuine issue of fact as to Tyson's usage of the name Wing Flings on its display boxes from August through October 1994. Thus, the Court finds that Tyson has breached the settlement agreement by using display boxes with the Wing Flings mark from August through October 1994. The fact that Tyson attempts to label this as an isolated incident which was quickly remedied does not cure the breach.

In its August 8, 1994 decision, the Court found that the language of the Court in this case incorporates the settlement agreement and so a finding of contempt is possible if the dismissal order was breached. Transcript of August 8, 1994. The Court has inherent power to hold a party in civil contempt in order to enforce compliance with the order of the Court or to compensate for the losses or damages. Powell v. Ward, 643 Fed 2d 924 at 931, citing McComb v. Jacksonville Paper Company, 336 US 187, 191. In order to find a party in contempt, the order must be clear and unambiguous. The proof of noncompliance must be clear and convincing and there must be a showing that the defendant has not been reasonably diligent and energetic in attempting to do what has been ordered. Powell at 931.

As the Court determined in its August 8, 1994 ruling, the dismissal order at issue is clear and ambiguous. It incorporates all the terms of the settlement agreement signed by the parties including the requirements at paragraphs one and two which details items Tyson must stop using. It makes no attempt now to argue that the language of the order is ambiguous and so standing on its previous ruling, the Court finds the language of the order to be clear and unambiguous.

As just discussed, the Court finds that Tyson has breached the settlement agreement which is incorporated into the dismissal order by shipping display boxes with the Wing Flings names to customers between August and October 1994. Tyson has presented no evidence which shows a genuine issue of material fact as to this noncompliance demonstrated by the plaintiff. Thus, the proof of their noncompliance is clear and convincing. The only question remains is whether Tyson was diligent in attempting to comply.

Unlike the scenario presented in the August 8, 1994 ruling that Tyson had not acted with reasonable diligence to follow the dismissal order, the situation now at issue presents a closer question. Plaintiff argues the fact that these violations occurred over two years after the dismissal order was entered plainly shows a lack of reasonable diligence by Tyson. It notes that Hester was the party who brought this breach to Tyson's attention and that breach lasted at least two months until Hester provided concrete evidence of noncompliance at an October 14, 1990 deposition. When Hester notified Tyson of the breach on September 5, 1994 and asked Tyson to immediately notify those companies that it must stop, Tyson responded on September 9, 1994 by requesting that Hester provide the locations of the offending stores, the nature of the breach and the time periods involved in the breach. Although Hester's initial letter was not particularly specific, Tyson's answer was essentially to request that Hester do its investigative work regarding the breach. Plaintiff's Exhibit 12 and 13. Further, Hester points out that the memorandum which Tyson uses as support for the fact that it informed all its plants in January 1993 to return all Wing Flings packaging to the Tyson packaging warehouse only includes a list of packaging bags to be returned and does not mention packaging boxes and box labels. Plaintiff's Exhibit 40 and Defendant's Exhibit 21 and Exhibit 1.

Tyson on the other hand asserts that the problem at the Blountsville plant was an isolated and unintentional incident which has been quickly remedied. Tyson notes that when Hester pointed out a particular example at a breach of a store in California, it immediately undertook an investigation of its source, notified Price Costco Warehouses in several areas about the problem and gave instructions to stop the breach.

Defendant Exhibit 21. This is certainly more of a remedial effort than presented by Tyson in the breaches involved in the August 8, 1994 decision. However, the test for reasonable diligence is whether the defendant has been reasonably diligent and energetic in attempting to follow the Court's order, Powell at 931, not whether once it breached it was diligent in fixing the breach. Based on these facts, the Court finds Tyson was not reasonably diligent in attempting to follow the Court's order and so finds Tyson in contempt of the dismissal order regarding display boxes bearing the Wing Flings mark. So, partial summary judgment is granted in favor of the plaintiff on counts 1 and 2 of the amended complaint. Court's going to reserve decision on the preliminary injunction motion by the plaintiff. So I won't address that at this time. I'll address it very shortly in writing.

Defendant also requests partial summary judgment arguing that plaintiff's claim for trademark infringement, trademark dilution, unfair competition and tortious interference are precluded by res judicata. Defendant also asserts that the terms of the settlement agreement and dismissal order bar these claims and that Hester is limited by the settlement agreement to the remedy of specific performance. Defendant also argues that Hester's claims for attorney fees for trademark dilution must also be dismissed because the dilution statute does not allow this remedy.

Defendant asserts that the jury's decision in Pierce Foods Corporation v. Tyson Foods, Inc, civil action number 86-805, Tyson I, produces res judicata effect on the current claims of trademark infringement, trademark dilution, unfair competition and tortious interference. Res judicata bars a subsequent suit between the same parties or their privies where a prior action has resulted in a judgment on the merits of the same cause of action. Tucker v. Arthur Anderson Company, 646 Fed 2d 721, at pages 726 and 727. It prevents subsequent litigation of any defense or ground for recovery that was available to the parties in the original action, whether or not it was actually litigated or determined. Tucker at 727. The fact that several operative facts may be common to successive actions between the same parties does not mean that a judgment in the first will always preclude litigation of the second. Whether the first judgment is preclusive depends on whether, one, a different judgment in the second action would impair rights or interests created by the first judgment; two, the same evidence is necessary to support both claims and three, the essential facts in the second action—the essential facts in the second were present in the first. That's Tucker case at 727 again. Also important is whether the same transaction or connecting series of transactions is at issue. NLRB v. United Technologies Corp., 706 Fed Supp 1254. The crucial element underlying all these standards is the factual predicate of the several claims asserted. For it is the facts surrounding the transaction or occurrence which operate to constitute the cause of action, not the legal theory upon which the litigant relies. Expert Electric, Inc. v. Levene, 554 Fed 2d 1227, 1234.

There is no question that a judgment on the merits was reached in the Tyson I case and that Hester and Tyson were privy to that action. Argument arises as to whether the same causes of action are at issue in this case. Plaintiff argues that since the claims in this suit arises entirely from Tyson's improper acts after March 12, 1992, a time period not addressed in Tyson I, res judicata cannot preclude this suit. This Court held that Hester Industries v. Tyson Foods, Inc., 89-CV-949, 14 USPQ 2d 1990, 1991, Tyson II, that the antidilution cause of action in that suit was not barred by res judicata because of the decision in Tyson I. Based on this finding the Court cannot validly hold now that the antidilution cause of action in the current suit is barred by res judicata due to the Tyson I case.

Moreover, the Court cannot find that a different judgment in this action would impair rights or interests created by the other two suits or that given the time periods involved in Tyson's alleged misconduct, the same evidence is necessary to support the current claims. Given the time period of alleged misconduct involved in this suit, the Court cannot find that the essential facts in this action were present in Tyson I. Additionally, trademark infringement and trademark dilution are continuing torts and so give rise to a fresh cause of action so long as the wrong persists. RG Barry, Corp. v. Mushroom Makers, Inc, 108 Misc.2d 113; DeMedici v. Lorenzo DeMedici, Inc., 101 Appellate Division 719. As for the unfair competition and tortious interference claims, tortious interference was not part of Tyson I, and the unfair competition claim is based on facts different than those in Tyson I. Thus, these claims will not impair rights or interest created by the first judgment and will require different evidence and factual support.

Defendant claims that Tyson I's jury finding that there was no likelihood that consumers would confuse Tyson's Wing Flings mark with Hester's Wing Dings mark and the Tyson use of the Wing Flings mark did not constitute unfair competition collaterally estops plaintiff's current claims of trademark infringement, unfair competition, trademark dilution and tortious interference. Collateral estoppel is properly invoked when, one, the issue of law or fact was actually litigated and decided in a prior action. Two, the prior court was one of competent jurisdiction and, three, the parties in the subsequent suit are identical or are in privity. United States v. Alcan Aluminum Corp., 990 F.2d 711, 718-719.

As discussed, the parties are in privity in this action and there is no question that the prior Court had competent jurisdiction. The confusion issue was also clearly litigated and decided since the decisions that there was no likelihood of confusion and that no unfair competition had arisen from

Tyson's use of the Wing Flings mark were made by the jury. In coming to this conclusion, generally the Court must find that the plaintiff is collaterally estopped from litigating these issues in the new trial. See Pignons SA de Mecanique v. Polaroid Corp., 701 Fed 2d 1, at pages 2 and 3. However, collateral estoppel does not apply where an intervening factual change has altered the basis upon which the earlier judgment depended. Texas Pig Stands, Inc. v. Hard Rock Cafe International Incorporated, 951 Fed 2d 648, at 691.

Plaintiff argues that many factual changes have taken place. Mainly it argues that the current action is based entirely on alleged misconduct which has taken place since April of 1992 after the signing of the settlement agreement in which Tyson agreed not to use the Wing Flings mark. It also argues that since Tyson I, the Wing Flings mark has been recognized as a strong mark in several court actions. The Court agrees that these facts presented significant factual change which makes collateral estoppel by Tyson I inapplicable.

The defendant argues in terms of the settlement agreement limits plaintiff's remedy to specific performance and release defendant from further suit and so bar the current claims for trademark infringement, dilution, unfair competition and tortious interference and all requested relief beyond specific performance.

In determining whether a written instrument constitutes a release, the language of the instrument is to be given its natural and ordinary meaning. Barrett v. United states, 651 Fed Supp 611, 613. While the writing must show a current intent to renounce a claim, no special words must be used. Barrett at 613; Bank of America National Trust and Savings Association v. Gillaizeau, 766 Fed 2d 709, 713. The party's intent determines the scope of the release. Gillaizeau at 713. When the language of the written instrument is unambiguous, no other evidence of intent may be considered. Barrett at 613. Neither party has argued that the language of the settlement agreement is ambiguous with regard to this issue so the Court can determine the meaning of the settlement agreement as a matter of law. See RT Leasing Corp v. Ethyl Corporation, 494 Fed Supp 1128, 1133.

The settlement agreement in Tyson II states that Hester will promptly dismiss with prejudice by stipulation of the parties, without the entry of any judgment, injunction or order for injunctive relief, civil action number 89-CV-949 pending in the United States District Court for the Northern District of New York and that Hester hereby releases all claims that it now has against Tyson and Golub for trademark infringement, unfair competition, anti-trust or dilution. Defendant relies on this language in regard to the current suit. However, the agreement states only that Hester agrees to release Tyson from claims it had at the time the agreement was reached. Since the agreement and dismissal order was entered on April 9, 1992, only claims arising from conduct before that time can be viewed as barred by the agreement. The plain language of the agreement resists a different reading.

Additionally, while the defendant correctly points out that a general release executed pursuant to a court approved settlement will effectively bar subsequent claims arising out of the same transactions, Bernstein v. Mediobanca Banca di Credito, 78 FRD 1, 2, the claims of this suit do not arise out of the same transactions as those in Tyson II because all of the alleged misconduct took place after the agreement ending Tyson II was signed. Therefore, these claims are not barred.

In regard to the scope of the remedies available, the plain language of the agreement also does not act as a limitation. Paragraph six of the agreement states that the Tyson II suit is dismissed with prejudice, however such dismissal will be dependent on the terms of this agreement subjected to enforcement by specific performance by the United States District Court for the Northern District of New York. As a result, a copy of this settlement agreement will be filed with the Court along with the dismissal papers. Just as the previously discussed language, the Court cannot construe the plain meaning of these words to be bar against future causes of action for alleged misconduct yet to occur at the time the agreement was signed. The plain meaning of this language does not support an interpretation that it bars various types of relief for actions that were not or could not have been asserted in the Tyson II suit. Thus, defendant's motion for partial summary judgment is denied and the plaintiff's causes of action for trademark infringement, dilution, unfair competition, and tortious interference are left standing.

Defendant also claims that despite plaintiff's request in its complaint, attorneys' fees cannot be awarded to the prevailing party in a trademark dilution claim. The Court agrees. Plaintiff's trademark dilution claim is a state law cause of action based on Section 368-d of New York General Business Law. The language of Section 368-d provides only for injunctive relieve and the Court can find no case law specifically showing that attorneys' fees have been awarded for violations of 368-d. Moreover, a party generally bears its own attorneys' fees in the absence of a statute or agreement between the parties that make such fees recoverable. New York follows this general rule. Domon v. Warsitz, 1993 West Law 152079 at 3. Since neither the anti-dilution statute nor any agreement between the parties specify that attorneys' fees are recoverable for trademark dilution, such an award cannot be allowed in this case.

Additionally, plaintiff argues that attorney fees should be granted under Rule 11 because given the weight of evidence in favor of plaintiff on this claim, it is frivolous for the defendant to argue against them. Without even reaching the merits of this assertion, the Court denies plaintiff's motion for attorneys' fees based on Rule 11 because it's not presented in the proper form. See Rule 11(b)(1)(a), stating that a motion for sanctions must be made separately from other motions and shall not be presented to the Court until 21 days after service upon the opposing party. So, plaintiff's motion for trademark dilution claim is denied on these grounds as well.

So, plaintiff's motion for summary judgment in its favor on counts one and two is granted in regard to the use of display boxes labeled with the Wing Flings mark. The motion for a preliminary injunction is reserved. Defendant's motion for summary judgment is granted in regard to attorneys' fees for the antidilution claim, but is denied in all other respects.

Plaintiff can submit an order after it receives the Court's decision on the injunction. Thank you all.

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APPENDIX D

UNITED STATES DISTRICT COURT,
N.D. NEW YORK.

No. 93-CV-391.

HESTER INDUSTRIES, INC., Plaintiff,

v.

TYSON FOODS, INC., Defendant.

July 29, 1997.

* * * * * * * * *

Nixon & Vanderhye, P.C. (Robert W. Adams, Duane M. Byers, Robert A. Rowan, J. Scott Davidson, of counsel), Arlington, VA, Kohn, Bookstein & Karp, P.C. (Richard A. Kohn, of counsel), Albany, NY, for plaintiff.

Husch & Eppenberger (Karen J. Halbrook, Joseph H. Knittig, of counsel), Kansas City, MO, Levene, Gouldin & Thompson (David M. Gouldin, of counsel), Binghamton, NY, Shughart, Thomson & Kilroy, P.C. (John R. Cleary, of counsel), Kansas City, MO, for defendant.

McAVOY, Chief Judge.

In August 1989, The plaintiff, HESTER INDUSTRIES, INC. (hereinafter "Hester"), filed a Complaint against the defendant, TYSON FOODS, INC. (hereinafter "Tyson"), alleging that Tyson's use of the mark WING FLINGS constituted trademark dilution and infringement. Shortly before trial, the parties entered into a Settlement Agreement that was incorporated into a Dismissal Order, filed on April 9, 1992. The Settlement Agreement provided, *inter alia,* that "Tyson agreed to stop all uses of the WING FLINGS mark in association with poultry products." *See* Settlement Agreement ¶1.

It is now alleged that Tyson did not comply with the Settlement Agreement, and that Hester has been damaged as a result. Hester subsequently brought an action for Tyson's alleged failure to comply with the Dismissal Order/breach of the Settlement Agreement. Following extensive and contentious discovery, this matter was tried before the undersigned in a non-jury trial commencing January 14, 1997.

I. FINDINGS OF FACT

A. Parties

The plaintiff, Hester Industries, Inc., is a "further processor" of poultry products with annual sales for the year 1996 in excess of $48 million. Approximately forty-percent of Hester's sales are generated from the sale of chicken wings products, the so-called "WING DINGS" family of products. The sale of "WING DINGS" accounts for approximately fifty-percent of Hester's profits. These products are sold primarily to food distributors. Hester's target consumer is the U.S. population as a whole. Most of the "WING DINGS" products ultimately reach consumers through institutional, restaurant, retail, wholesale club store, or food service outlets.

The defendant Tyson Foods, Inc., is a competitor of Hester in relation to the chicken wings products, and is the largest poultry processor in the world, with annual sales approximating $8 billion. Approximately $120 million dollars of sales from about September 1992 to January 1, 1996 were generated annually from the sale of chicken wing products, the so-called IQF or "Instant Quick Freeze" product, first sold under the mark WING FLINGS and then WING FLINGERS. This product is sold through sales representatives and brokers primarily to retail and wholesale club stores.

The Hester "WING DINGS" product is a pre-cooked, pre-seasoned frozen chicken wing product.

The Tyson IQF product, at one time called WING FLINGS, and then, WING FLINGERS, is a raw, uncooked, unseasoned frozen chicken wing product.

Hester holds a valid, federally licensed U.S. trademark in the WING DINGS mark.

Moreover, pursuant to a Settlement Agreement effective March 12, 1992, and incorporated into this Court's April 9, 1992 Order of Dismissal, relating to the previous[1] action involving these parties, Tyson agreed to stop "all uses of the WING FLINGS mark in association with poultry products" by certain dates. More specifically, Tyson agreed to exhaust its inventory of product number 141, the 5 lb. bag of WING FLINGS, by September 1, 1992. All other inventory bearing the WING FLINGS mark was to be exhausted by December 1, 1992. Tyson was permitted to extend those dates for no more than two months upon prior notice to Hester. Tyson also agreed that from the date of the Settlement Agreement, it would not have any new packaging or other materials produced bearing the WING FLINGS mark. Hester paid Tyson $150,000.00 and agreed not to contest the use of the mark WING FLINGERS.

Hester has vigorously defended the "WING DINGS" mark in the past through the use of negotiated settlements and litigation.

After the deadlines set forth in the Settlement Agreement had passed, Hester learned of an advertisement in the March 10, 1993, Washington Post for the sale of Tyson WING FLINGS.

Hester's attorneys sent a letter to Tyson, dated March 17, 1993, complaining of the continued sale of product marked with the infringing mark, and demanded an accounting of all uses of WING FLINGS after September 1, 1992. By letter dated March 19, 1993, Tyson's attorneys declined to comply with Hester's demand, and stated that Tyson had "better things to do with its time."

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[1] *Hester v, Tyson,* 89-CV-0949.

Hester commenced the present action, by the filing of a Summons and Complaint, on March 25, 1993. The Complaint, subsequently amended, alleges breach of contract, violation of the stipulated Order of Dismissal, trademark dilution, trademark infringement, and unfair competition. After a bench trial, and after a full review of the record in this case, the Court has determined that the sole claim to be decided by this Court is whether or not, and to what extent, Tyson violated the stipulated Order of Dismissal by continued use of the WING FLINGS mark after the deadline set forth therein.

The food service and retail sales markets for poultry products are blurred and/or overlap.

Hester has made no claim for lost sales or lost profits, However, Hester seeks Tyson's profits relating to the sales of alleged offending chicken wing products made by Tyson after the deadlines set forth in the Settlement Agreement.

B. Wrongful Acts of Tyson

Tyson became aware that it was using invoices with the WING FLINGS mark in July 1993. Upon learning of the noncompliant use of the mark, Tyson did not investigate for other such uses and did not issue a statement to its employees, agents, and/or customers to cease the use of the WING FLINGS mark.

Tyson became aware that it was packaging product in packages bearing the WING FLINGS mark in mid-December 1992. Following that discovery, Tyson did not notify Hester of the noncompliance. Tyson did not investigate for additional noncompliant packaging, and did not issue a statement to its employees, agents, and/or customers to cease use of the WING FLINGS mark.

Tyson was aware, after the deadline in the Settlement Agreement, that wholesale clubs and retail stores, to which it sold IQF products and for whom Tyson paid at least some advertising costs, were, at least episodically, advertising the sale of Tyson WING FLINGS.

Tyson sales representatives and/or brokers made on site visits to a number of stores and wholesale clubs, after the deadline set forth in the Settlement Agreement, to inspect the display of IQF products and "signage." The sales representatives and brokers reported no violations of the Settlement Agreement.

Tyson was aware that IQF product was shipped to club stores in packaging bearing the WING FLINGS mark after the deadline date of the Settlement Agreement.

Tyson's knowledge of noncompliant use of the WING FLINGS mark is illustrated by the following examples testified to at trial:

The Kroger Company bought Tyson IQF products from at least March 12, 1992 through October 12, 1994. Price lists provided to Kroger prior to October 1, 1994 used the WING FLINGS mark. "Receiver" documents, indicating the receipt of IQF product, and provided to Kroger, used the WING FLINGS mark. The WING FLINGS mark was used in Kroger advertising during, at least, the dates March 29, 1993 through April 4, 1993, and December 28, 1992 through January 3, 1993.

Tyson sales representatives and/or brokers check with the Kroger stores to ensure that Tyson products are ordered and displayed properly. At no time was Kroger instructed by Tyson to stop using the WING FLINGS mark.

At no time was Kroger confused as to the source of the chicken wing products it purchased. There is no evidence of actual consumer confusion relating to the chicken wings products sold at Kroger.

Meijer, Inc. received price lists and invoices from Tyson covering the dates January 1993 through March 1993, using the WING FLINGS mark. In addition, Meijer, Inc. used "ad slicks" provided by Tyson for advertisements on April 4, 1993, and from May 23, 1993 through May 23, 1993 through May 29, 1993, using the WING FLINGS mark.

Meijer, Inc. had no knowledge of the Settlement Agreement executed by the parties, and Tyson, as of October 14, 1994, had not instructed Meijer, Inc. to cease use of the WING FLINGS mark.

At no time was Meijer, Inc. confused as to the origin of the chicken wing products it purchased for resale.

Prior to April 1993, Sam's Club stores sold IQF product in WING FLINGS packaging, and displayed signage using the WING FLINGS mark. Sam's was not instructed by Tyson to cease use of the WING FLINGS mark, prior to October 4, 1994. Sometime thereafter, Tyson instructed Sam's to cease use of the WING FLINGS mark.

After the deadline date set forth in the Settlement Agreement, BJ's Wholesale Club sold Tyson IQF product in packaging using the mark. During at least the month of November 1994, Tyson shipped 6 lbs. packages of IQF product to BJ's. This product was identified on the BJ's Daily Vendor Sheets as "Tyson 6 lb. Wing Flings." Sometime thereafter, Tyson instructed BJ's to cease use of the WING FLINGS mark.

The Order Guide provided to members of the Associated Grocers company, dated October 7, 1994 through October 13, 1994 uses the term "Tyson Wing Flings." Advertisements for Associated Grocers during the years 1992 and 1993 used the term "Tyson Wing Flings." The Associated Grocers' invoices sent to member grocery stores listed a product called "Tyson Wing Flings." As of October 12, 1994, Tyson had not instructed Associated Grocers not to use the WING FLINGS mark.

In October or November of 1994, Tyson learned that IQF product from its Blountsville facility was being shipped to non-Tyson warehouses and/or shippers with the WING FLINGS mark on the packaging. Tyson attempted to relabel to noncompliant product. Tyson did not commence an investigation of any other facility for noncompliant product.

Subsequent to March 13,1993, and continuing until at least January 1994, Tyson continued to order and use inventory forms containing the term WING FLINGS. An inventory form is an internal Tyson document that is not shown to any ultimate consumer.

Tyson designates the products it sells by the use of product code numbers. The following product codes and descriptions related to IQF products at issue in this case.

141 IQF product provided to retail customers
142 IQF product provided to retail and/or international customers
146 IQF product sold to Sam's Clubs
147 IQF product sold to Sam's Clubs
7563 IQF product sold to Price/Costco
9612 IQF product sold to Price/Costco
9611 IQF product sold to BJ's
8346 IQF product sold to Price/Costco
4542 IQF product sold to Price/Costco

Tyson used the mark "WING FLINGS" after the deadline date on case end labels, packaging, invoices, bills of lading, film, and in promotional materials.

Tyson packaging for the product bearing the product code number 9611-928 from the date December 6, 1992, through March 6, 1993 bore the mark WING FLINGS. The net sales dollars for that time period is $277,002.00, for sales of 336,720 pounds of IQF product.

Tyson packaging for the product code 7563-916 from the date December 6, 1992 through March 6, 1993 bore the mark WING FLINGS. The net sales dollars for that time period is $516,231.00, for sales of 716,928 pounds of IQF product.

Tyson packaging for the product code 9612-939 from the date December 6, 1992 through March 6, 1993 bore the mark WING FLINGS. The net sales dollars for that time period is $398,859.00, for sales of 489,888 pounds of IQF product.

Tyson packaging for the product code 146-928 from the date December 6, 1992 through March 6, 1993 bore the mark WING FLINGS. The net sales dollars for that time period is $912,630.00 for sales of 1,161,400 pounds of IQF product.

Tyson packaging is seen by Tyson customers and/or ultimate customers of its IQF product.

Tyson labels for the product bearing the product code 9612-939 from the date month ending September 3, 1994, through October 29, 1994 bore the mark WING FLINGS. The total net sales dollars for this period was $498,518.00, for sales of 625,344 pounds of IQF product.

Tyson labels for the product bearing the product code 7563-916 from the date month ending September 3, 1994, through October 29, 1994 bore the mark WING FLINGS. The total net sales dollars for this period was $502,093.00, for sales of 666,816 pounds of IQF product.

Tyson bills of lading for the Tyson product code 141-928 used the WING FLINGS mark at least during the time frame month ending October 3, 1992 through September 4, 1993, the month ending October 2, 1993, and January 28, 1995 through March 4, 1995. The total sales dollars for the time period October 3, 1992 through September 4, 1993 equals $18,654,235.00, for sales of 29,025,080 pounds of IQF product. The amount for the remaining time periods equals $194,558.00, for sales of approximately 186,971 pounds of IQF product.

Tyson bills of lading for the Tyson product code 142-928 used the WING FLINGS mark at least during the time frame December 6, 1992 through October 2, 1993. The net sales dollars for the time period amounted to $88,676.00 for sales of 106,080 pounds of IQF product.

Tyson bills of lading for the Tyson product code 146-928 used the WING FLINGS mark at least during the time frame December 6, 1992 through March 7, 1993. The total net sales dollars for the time period was $912,630.00, for sales of 1,161,400 pounds of IQF product.

Tyson bills of lading for the Tyson product code 147-928 used the WING FLINGS mark at least during the time frame month ending March 6, 1993 through October 10, 1993. The total net sales dollars for that period was $2,660,953.00, for sales of 3,242,200 pounds of IQF product.

Tyson bills of lading are an internal document not seen by a Tyson customer or ultimate consumer.

Tyson sales orders for the Tyson product code 141-928 used the WING FLINGS mark at least during the time frame October 3, 1992 through September 4, 1993. The total sales dollars for the time period October 3, 1992 through September 4, 1993 equals $18,654,235.00, for sales of 29,025,080 pounds of IQF product.

Tyson sales orders for the Tyson product code 142-928 used the WING FLINGS mark at least during the time frame December 6, 1992 through October 2, 1993. The net sales dollars for the time period amounted to $88,676.00, for sales of 106,080 pounds of IQF product.

Tyson sales orders for the Tyson product code 146-928 used the WING FLINGS mark at least during the time frame December 6, 1992 through March 7, 1993. The total net sales dollars for the time period was $912,630.00, for sales of 1,161,400 pounds of IQF product.

Tyson sales orders for the Tyson product code 147-928 used the WING FLINGS mark at least during the time frame month ending March 6, 1993 through October 10, 1993. The total net sales dollars for that period was $2,660,953.00, for sales of 3,242,200 pounds of IQF product.

Tyson sales orders are an internal Tyson document not seen by a Tyson customer or ultimate consumer.

Tyson invoices for the Tyson product code 141-928 used the WING FLINGS mark at least during the time frame October 3, 1992 through September 4, 1993. The total sales dollars for the time period October 3, 1992 through September 4, 1993 equals $18,654,235.00, for sales of 29,025,080 pounds of IQF product.

Tyson invoices for the Tyson product code 142-928 used the WING FLINGS mark at least during the time frame December 6, 1992 through October 2, 1993. The net sales dollars for the time period amounted to $88,676.00, for sales of 106,080 pounds of IQF product.

Tyson invoices for the Tyson product code 146-928 used the WING FLINGS mark at least during the time frame December 6, 1992 through March 7, 1993. The total net sales dollars for the time period was $912,630.00, for sales of 1,161,400 pounds of IQF product.

Tyson invoices for the Tyson product code 147-928 used the WING FLINGS mark at least during the time frame month ending March 6, 1993 through October 10, 1993. The total net sales dollars for that period was $2,660,953.00, for sales of 3,242,200 pounds of IQF product.

Tyson invoices are an internal Tyson document not seen by a Tyson customer or ultimate consumer.

Tyson generates a bill of lading, order and invoice for each transaction, and/or movement of goods. Accordingly, the net sales dollar amounts set forth for the Court are duplicative for each such document with the exception of bills of lading for the times periods month ending October 2, 1993, and January 28, 1995 through March 4, 1995 for the Tyson product bearing the product code 141-928.

Tyson retail price lists, provided to food brokers and Tyson retail sales employees, for the product code 141-928 used the term WING FLINGS during the time period July 26, 1992 through August 29, 1992. Some of these price lists were provided to Tyson customers. The total net sales dollars for the time period amount to $1,817,795, for sales of 2,699,280 pounds of IQF product.

Tyson club store price lists for the retail price lists, provided to food brokers and Tyson retail sales employees, for the product code 9612-939 used the term WING FLINGS during the time period December 6, 1992 through October 29, 1994. The total net sales dollars for this time period was $3,145,642.00, for sales of 3,908,544 pounds of IQF product.

Tyson club store price lists for the retail price lists, provided to food brokers and Tyson retail sales employees, for the product code 7563-916 used the term WING FLINGS during the time period December 6, 1992 through October 29, 1993. The total net sales dollars for this time period was $3,578,985.00, for sales of 4,989,792 pounds of IQF product.

The Total net sales dollars for all periods of Tyson violations, adjusted for duplication, amounts to $30,831,958.00, for sales of 45,656,067 pounds of IQF product.

C. Tyson Procedures

Tyson uses the "Take Out Value" approach to arrive at a figure for "Cost of Goods Sold." The Take Out Value is figure usually below the expected sales price for the IQF chicken wing product several months in the future, as determined with reference to the Urner-Barry Report and Tyson certain executive's "feel" for the future market. The Take Out Value usually is recalculated no more frequently than quarterly. The Take Out Value is unrelated to the historical actual cost of producing the IQF product. Accordingly, although the Take Out Value is acceptable for use in relation to internal accounting, it is inappropriate for use when determining profits.

Tyson contracts with its outside shippers, such as Zero Mountain, Inc., for shipment/delivery of its goods, and lists the shipper as an agent of Tyson. Tyson retains the risk of loss. Tyson retains title of the product. Tyson directs the shipper where, when, and to whom IQF product is to be shipped.

Tyson contracts with its food brokers, such as Morris Alper & Sons, to sell IQF products, and lists the broker as an agent of Tyson. Tyson sets the prices for the product. Tyson provides the description of the product. Tyson provides promotional materials, such as ad slicks, to the broker. On occasion, Tyson will reimburse the broker for advertising costs incurred through a retailer, or will permit the broker to draw from a Tyson account. Tyson is solely responsible for shipping and billing relating to sales of the IQF product.

II. CONCLUSIONS OF LAW

A. Civil Contempt

"Under 18 U.S.C. § 401(3), a district court has the power to fine a person for disobeying the court's order. The 'sanctions imposed after a finding of civil contempt serve two functions: to coerce future compliance and to remedy past noncompliance.'" *Weitzman v. Stein,* 891 F.Supp. 927, 930 (S.D.N.Y.1995), *modified on other grounds,* 98 F.3d 717 (2d Cir.1996), *quoting, Vuitton et Fils S.A. v. Carousel Handbags,* 592 F.2d 126, 130 (2d Cir.1979); *Cancer Research Inst., Inc. v. Cancer Research Society, Inc.,* 744 F.Supp. 526, 529 (S.D.N.Y.1990). It has long been held that the purpose of civil contempt is not punitive. *Sunbeam Corp. v. Golden Rule Appliance Co.,* 252 F.2d 467, 469 (2d Cir.1958). Thus, sanctions should be calculated to coerce future compliance with the Court's orders and to compensate the injured party for losses resulting from the contemptuous conduct. *Id.*

A finding that a party should be held in civil contempt requires a showing of clear and convincing evidence. *See Manhattan Industries, Inc. v. Sweater Bee By Banff, Ltd.,* 885 F.2d 1, 4 (2d Cir.1989); *New York State Nat'l Org. For Women v. Terry,* 886 F.2d 1339, 1351 (2d Cir.1989); *Upjohn Co. v. Medtron Laboratories, Inc.,* 894 F.Supp. 126, 133 (S.D.N.Y.1995). "Pursuant to the 'clear and convincing' evidence standard, a court's inherent power to hold a party in civil contempt should be exercised only when (1) the order the party allegedly failed to comply with is clear and unambiguous; (2) the proof of noncompliance is clear and convincing; and (3) the party has not diligently attempted in a reasonable manner to comply.'' *Upjohn,* 894 F.Supp. at 133 (citations omitted). The third prong may be met by a showing of a ''failure 'to energetically police compliance' '' with the Court's Order. *Manhattan Indus.*, 885 F.2d at 5, *citing* 1 J. Gilson, Trademark Protection and Practice § 8.07[5], at 8-169 (1988).

In the instant case, a Dismissal Order, incorporating the terms of a Settlement Agreement signed by the parties, was filed with the Court on April 9, 1992. The Settlement Agreement was effective from March 12, 1992, and provided that Tyson would ''stop all uses of the WING FLINGS mark in association with poultry products.'' *See* Settlement Agreement ¶ 1. The plaintiff has established clearly and convincingly that Tyson did not stop all uses of the WING FLINGS mark. The deadlines could have been extended for a specified period of time if Tyson had requested such. However, Tyson made no request for an extension.

During the time periods set forth in the Fact section above, Tyson used the WING FLINGS mark on its invoices, sales orders, bills of lading, advertising materials, pricing documents, and/or packaging materials. Those uses occurred after the deadlines for no further uses of the mark had passed. Thus, it is clear that Tyson failed to comply with the clear and unambiguous language of the Dismissal Order.

As to whether Tyson energetically policed compliance with the Dismissal Order, the Court concludes that it did not. First, there was testimony at the trial that the matter of compliance with the Dismissal Order could have been effectuated in a single day. Tyson merely had to change its central computer program so that the mark would no longer be automatically printed on documents. In addition, Tyson could have sent notification to its various divisions, distributors, brokers, managers, and other relevant employees and agents, advising that the use of the WING FLINGS mark must cease by an agreed upon deadline. This was not done in a manner reasonably calculated to achieve that result. In addition, there is evidence that Tyson continued to pay for a number of advertisements using the WING FLINGS mark from the effective date of the Settlement Agreement until early 1996. Moreover, after receiving notification from Hester's counsel that Tyson was not complying with the Settlement Agreement, Tyson responded to the request that it investigate by stating in a March 19, 1993, letter that it had "better things to do with its time." For these reasons, *inter alia,* the Court concludes that Tyson failed to exert reasonably diligent and energetic efforts to accomplish what was ordered in the Dismissal Order. *See Manhattan Indus.,* 885 F.2d at 7.

Based on the foregoing, the Court concludes that Tyson violated the Dismissal Order, and should be held in civil contempt of this Court's Dismissal Order. The Court next turns to the issue of an appropriate sanction.

B. Sanctions for Civil Contempt

Having concluded that the defendant Tyson violated the Dismissal Order and should be held in contempt, the Court must now determine the appropriate sanction to be imposed. As clearly stated in *Manhattan Industries,* "a civil contempt sanction may . . . serve either to coerce the contemnor into future compliance with the court's order or to compensate the complainant for losses resulting from the contemnor's past noncompliance." *New York State NOW v. Terry,* 886 F.2d 1339, 1352 (2d Cir.1989) (citation omitted). In the instant case, the plaintiff seeks compensatory sanctions. The Court notes that in fashioning the appropriate remedy, it must keep in mind that the goal of civil contempt proceedings is "remedial and compensatory, [] not punitive." *Sunbeam Corp. v. Golden Rule Appliance Co.,* 252 F.2d 467, 469 (2d Cir.1958) (further citation omitted).

As further stated in *Manhattan Industries,* when a monetary sanction is imposed for past noncompliance with a Court Order, such sanction "is not always dependent on a demonstration of 'actual pecuniary loss.'" *See* 885 F.2d at 5, *quoting, Leman v. Krentler-Arnold Hinge Last Co.*, 284 U.S. 448, 455-56, 52 S.Ct. 238, 241-42, 76 L.Ed. 389 (1932). Although the Second Circuit in *Terry* stated that "compensatory sanctions should reimburse the injured party for its actual damages," 886 F.2d at 1352, the Supreme Court in *Leman,* which reasoning was expressly adopted by the Second Circuit in *Manhattan Industries,* held that an award of profits is an appropriate civil contempt sanction even when the plaintiff has not shown legal damages. *See* 284 U.S. at 456, 52 S.Ct. at 241-42. However, lest a plaintiff be awarded a windfall, the *Sunbeam* Court has limited such recoveries in this Circuit by setting forth a general rule that a plaintiff may recover "the profits derived by the defendant's wrongful conduct: [not] assets not related to its wrongful conduct." *Sunbeam,* 252 F.2d at 470. Thus, in the absence of showing actual harm to itself, the Court concludes that Hester may recover those profits that Tyson arguably derived from the wrongful use of the WING FLINGS mark. *See Manhattan Indus.*, 885 F.2d 1, 6 (under a theory of unjust enrichment, a plaintiff in a contempt action is entitled to the contemnor's profits without submitting direct proof of injury, much less proof that any injury to the plaintiff "approximated in amount the defendant's profits") (citation omitted).

The plaintiff has set forth a number of categories of materials on which the WING FLINGS mark wrongfully appeared. The Court will now consider each, and whether any support a monetary damage award against Tyson.

C. Monetary Sanction

1. Bills of lading, sales orders, and invoices

Turning to the evidence at trial, the Court notes that bills of lading, sales orders (Tyson and broker), and invoices are Tyson internal documents that are never seen by a distributor or ultimate consumer. Therefore, any net sales dollars associated with these documents and the use of the WING FLINGS mark must be excluded from any sanction calculation, as any sales and corresponding profits relating to those documents are not related to the wrongful conduct, i.e., the use of the offending mark. *See Sunbeam,* 252 F.2d at 470. The reason is quite simple. If the documents are internal, although their use of the offending mark is a technical violation of the Dismissal Order, such use played no discernable role in the generation of profits by Tyson. No distributor could have made a decision based on those documents, and no customer could have made a purchase decision based on those documents.

In *Manhattan Industries,* the plaintiff was awarded the profits generated by actual sales of sweaters bearing the offending mark, despite the fact that no actual damage, e.g., actual customer confusion as to origin, was proved. *See* 885 F.2d at 6-7. Because the sanction in *Manhattan Industries* is an award of profits, the focus is ''on the defendant's wrongdoing, not on damage to the plaintiff.'' *Id.* at 6. However, the result of that wrongdoing arguably must injure the plaintiff. Such injury need not be economic and identifiable, though, as the loss of goodwill is sufficient. *See Id.* (citation omitted). As stated above, the use of the offending mark on completely internal documents cannot be said to harm the plaintiff, even in terms of a loss of goodwill. Accordingly, total net sales dollars relating to the use of the WING FLINGS mark in bills of lading, sales order, and invoices should not be included in the civil monetary sanction from which net profits will be derived, as they are unrelated to any sales that could have harmed Hester.

2. Pricing documents

i. Trial evidence

The next category of materials allegedly damaging Hester for use of the WING FLINGS mark is pricing documents. The evidence at trial established that pricing documents, such as price lists identifying various Tyson products, and the corresponding price, are provided to Tyson sales brokers and certain customers, such as the price club customers, e.g., Price/Costco. In particular, it was established that pricing documents using the WING FLINGS mark were provided to club store customers for products bearing the 7563-916 and 9612-939 product codes during the time period month ending January 2, 1993 through October 29, 1994. Those product codes represent IQF product sold exclusively to Price/Costco. In addition, the evidence established that the WING FLINGS mark was used on price lists provided to outside sales brokers for the product bearing the 141-928 product code, for the time period month ending August 29, 1992. The net sales dollars for this time period is $1,817,795.

These outside brokers, such as Morris Alper & Sons, are agents of Tyson,[2] and the testimony at trial established that the brokers provided pricing documents using the offending mark to customers. Those customers, such as retail grocery stores, then used the information in the pricing documents in advertising targeted to the ultimate consumer. There was no testimony, however, that the pricing documents were shown to the ultimate consumers of the chicken wings products. The question then arises, at what level of customer does compensable damage to the plaintiff occur? Wing products form both Hester and Tyson typically are sold through food brokers, who then sell the products to distributors, who in turn sell to retail stores, and then the ultimate consumer. However, Tyson also sells directly to club stores, who then resell the product to its customers.

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[2] Tyson sales/food brokers were trained by Tyson, and provided with Tyson documentation, including order forms, sales materials, and pricing documentation. Moreover, the brokers never took possession of the goods sold, bore no risk of loss, had no input on pricing, and did not arrange for shipping or billing. Finally, some brokers were periodically given the authority to draw checks from Tyson accounts in relation to sales promotions. The above factors establish an agency relationship between the brokers and Tyson. *See Cabrera v. Jakabovitz*, 24 F.3d 372, 385 (2d Cir.1994).

In *Manhattan Industries,* the plaintiff was compensated for sales made to the ultimate consumer. *See* 885 F.2d at 7. The *Manhattan Industries* Court did not discuss the distribution chain, or the limits on what would constitute damage to the plaintiff However, the Court in *Manhattan Industries* did rest its award of damages on a general theory of unjust enrichment. *See* 885 F.2d at 6-7. In the instant case, Hester and Tyson are competitors in a number of markets, including the food club market. Accordingly, use by Tyson of the offending mark in its pricing documents could harm Hester's goodwill in relation to Tyson. Stated another way, Tyson treated its club stores as customers, and competed with Hester for club store business. Thus, the use of the offending mark in connection with the pricing documents shown to those customers arguably may have provided a benefit to Tyson, and a corresponding injury to Hester. *See Manhattan Indus.*, 885 F.2d at 6. Accordingly, the net sales dollars relating to club sales uses of pricing documents bearing the WING FLINGS mark are includable in the sanction amount. *See* 885 F.2d at 6-7.

Similarly, there was evidence at trial that the pricing documents relating to product code 141-928 also was shown to customers by Tyson food sales brokers. Accordingly, net sales dollars for the time period associated with this use of pricing documents is includable in the monetary sanction amount.

ii. Adverse inference

The Court notes that the evidence of price lists was provided by Tyson to Hester for only two of five Price/Costco sales regions, despite a clear request for all price lists, Accordingly, the Court must consider whether to draw an adverse inference from the failure of Tyson to produce such documents.

There is a split of authority on whether a finding of bad faith is necessary for an adverse inference to be appropriate. *See Turner v. Hudson Transit Lines, Inc.*, 142 F.R.D. 68, 74-75 (S.D.N.Y.1991) (discussing case authority on this issue). Some courts have held that an adverse inference is appropriate only when the spoilation of or failure to preserve evidence was intentional. *See, e.g. Britt v. Block,* 636 F.Supp. 596, 606-07 (D.Vt.) ("Destruction of records through misunderstanding or negligence is not sufficient to supply evidence or recast the burden of proof"), *aff'd mem.*, 805 F.2d 390 (2d Cir. 1986); *INA Aviation Corp. v. U.S.*, 468 F.Supp. 695, 700 (E.D.N.Y.1979) ("one cannot justify the drawing of [an adverse] inference where the destruction of evidence is unintentional or where the failure to produce evidence is satisfactorily explained"). Other courts have held that the negligent or reckless destruction of evidence may warrant the imposition of an adverse inference against the spoliator. *See, e.g., Pressey v. Patterson,* 898 F.2d 1018, 1024 (5th Cir.1990); *Nation-Wide Check Corp., Inc. v. Forest Hills Distributors, Inc.*, 692 F.2d 214, 219 (1st Cir. 1982); *Turner,* 142 F.R.D. at 75-76. The rationale behind a sanction for negligent conduct is that "[t]he adverfse inference provides the necessary mechanism for restoring the evidentiary balance.'' *Turner,* 142 F.R.D. at 75. As the Court noted in *Turner,* ''[t]he inference is adverse to the destroyer not because of any finding of moral culpability, but because the risk that the evidence would have been detrimental rather than favorable should fall on the party responsible for its loss.'' *Id.*

The Second Circuit has stated that ''one cannot justify the drawing of . . . an [adverse] inference where the destruction of evidence is unintentional.'' *Berkovich v. Hicks,* 922 F.2d 1018, 1024 (2d Cir.1991), *quoting, INA Aviation Corp.,* 468 F.Supp. at 700. However, *Berkovich* expressly limited that holding to the facts of that case. *See Id.* Thus, it remains unclear whether this Circuit would permit the drawing of an adverse interest for the failure to preserve evidence on the basis of negligence. In the instant case, the initial issue is whether the defendant had a duty to preserve pricing documents for all regions relating to Price/Costco.

Generally, ''no duty to preserve arises unless the party possessing the evidence has notice of its relevance.'' *Turner,* 142 F.R.D. at 72-73, *citing, Danna v. New York Telephone Co.,* 752 F.Supp. 594, 616 n. 9 (S.D.N.Y.1990). The dispute as to the use of the WING FLINGS mark dates back to the filing of a Complaint with this Court in the precursor action in 1989. Moreover, in April 1992, the Court expressly ordered Tyson to stop all uses of the offending mark. The Court concludes, therefore, that Tyson was given sufficient notice to give rise to a duty to preserve all documents relating to the dispute as to use of the offending mark, of which pricing documents clearly are a part. *See generally Id.* (and cases cited therein). Having determined that the defendant had a duty to preserve the pricing documents, the Court must next consider whether the sanction of drawing an adverse inference is appropriate in this case. This inquiry focuses on the state of mind of the defendant and the content of the evidence no longer available. *See* 142 F.R.D. at 74, 76.

As to the state of mind of the defendant, the Court first notes that there is no evidence of intent on the part of Tyson to fail to preserve the pricing documents in question. However, the Court concludes, as did the *Turner* Court, that intent, although a significant factor, is not *required* for the drawing of an adverse inference. 142 F.R.D. at 76. Rather, given that Tyson had a duty to preserve, and given the extensive discovery that had been engaged in prior to the time period at issue with respect to these missing documents (prior to late 1992 through late 1994), the Court concludes that mere negligence is sufficient in this case. *See Id.*

Finally, as to the content of the documents, the Court must determine if there is "a nexus between the proposed inference and the information contained in the lost evidence." *Id.* Clearly, given that the pricing documents relating to two Price/Costco sales regions used the offending mark, it is reasonable to infer that the pricing documents relating to the other three regions also used the offending mark. In addition, Price/Costco Inventory Control Specialist stated, without qualification, in his deposition that Price/Costco received pricing documents from Tyson using the WING FLINGS mark.

For the reasons stated above, the Court draws an adverse inference from the missing documentation, and concludes that all pricing documents provided to Price/Costco for the relevant period used the offending mark.

The Court, therefore, concludes that a total net sales dollars amount of $8,542,422.00 should be included in the sanction amount.

3. Packaging and Labels

Finally, in regard to the packaging and labels allegedly using the WING FLINGS mark, the Court concludes that the sanction award properly should include the net sales dollars for the time periods relating to packaging, but not labels.

As to the packaging, there was ample evidence that Tyson continued to order packaging, used packaging, and, in fact, sold product in packaging using the WING FLINGS mark after the deadlines for ceasing use had passed. Hester produced noncompliant packages at trial, purchased after the Settlement Agreement deadlines. Tyson admitted that it had ordered packaging after the deadlines, and admitted that certain Tyson facilities continued to stock varying levels of noncompliant packaging inventory, evidencing use, after the deadlines set forth in the Settlement Agreement. Clearly, packaging is seen by Tyson customers, and thus, net sales dollars for the offending periods are appropriately included in the civil contempt sanction. *See Manhattan Indus.*, 885 F.2d at 6-7. Noncompliant packaging was used by Tyson for the product codes 146-928, 9611-928, 9612-939, and 7563-916 for the time period month ending January 2, 1993 through March 6, 1993. The total net sales dollars for that time period amounts to $2,104.722.

As to the alleged offending labels, the trial testimony and deposition transcripts evidenced that such labels were ordered and in fact used by Tyson after the Settlement Agreement deadlines. However, the testimony also established that Tyson relabeled those boxes discovered to have been mislabeled. Many of these boxes had not yet left a distributor, or had not yet been displayed in a retail outlet. In the absence of greater factual detail, the Court cannot determine what amount of net sales dollars, if any, arguably were derived from the offending mark's use on Tyson labels. Accordingly, any such net sales dollar figures may not properly be included in the civil monetary sanction amount.

The Court concludes that there was no evidence at trial of any other offending uses of the WING FLINGS mark by Tyson from which Tyson arguably could have derived profits. Thus, the Court concludes that the appropriate civil monetary sanction to be imposed against Tyson should includes those net sales dollars amounts relating to the offending time period set forth herein for packaging and pricing documents. The award amounts to net sales dollars of $9,732,054.00, for sales of 13,095,736 pounds of IQF product, after deductions for duplication.[3] However, this does not end the Court's task of arriving at an appropriate monetary sanction to compensate Hester for its loss resulting from Tyson's use of the WING FLINGS mark.

D. Cost of Goods Sold

As instructed by *Manhattan Industries,* after determining the sanction amount, the burden now shifts to the contemnor, Tyson, to establish costs that should be applied to the sanction amount, thereby reducing that amount, and resulting in a net profit figure. *See Manhattan Indus.,* 885 F.2d at 7 ("the burden is on the contemnor 'to prove any deductions for its costs from the gross revenues attributable to its contempt.'"), *quoting, Oral-B Laboratories, Inc. v. Mi-Lor Corp.,* 810 F.2d 20, 26 (2d Cir.1987). This net profit is called net margin dollars by Tyson.

Tyson attempts to reduce the net sales dollars figure by application of a costing method called the "Take Out Value" method. The Take Out Value method is the method used by Tyson to set a figure for the cost of goods sold. The cost of goods sold is deducted from the net sales dollars to arrive at the net margin dollars.[4]

The Take Out Value figure is set by a Tyson executive, and adjusted at irregular intervals, based on a so-called Urner-Barry report. The Urner-Barry report is a weekly industry publication that indicates the average selling price[5] of a commodity, such as chicken wings. Thus, the Take Out Value (or cost of goods sold by Tyson) varied in relation to the predicted market price fluctuations.

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[3] For example, if a month ending net sales dollars figure related to noncompliant use of the WING FLINGS mark on both packaging and pricing documents, the Court included the figure once.

[4] There was testimony that certain other costs, such as selling costs may have been deducted as well. However, no figures were provided quantifying such costs.

[5] The selling price, by definition includes historical cost and profit.

The testimony at trial established that the Take Out Value was usually set at a figure that the Tyson executive thought or had a "gut-feeling" would be some measure below the Urner-Barry figured in the future.[6] If the Take Out Value, in fact, fell below the Urner-Barry price, Tyson showed a profit for the period. If the Take Out Value did not fall below the Urner-Barry price, Tyson showed a loss for the period. However, this method of costing a product is flawed to the extent that it is used to calculate a net profit amount. As even stated by the defendant's expert, James Nawrocki, if one aims at market price as the cost of a product, and overestimates, such that the cost (Take Out Value) exceeds the true market price, the profit of other parts of the chicken, e.g., the breast, is increased. This, of course, occurs as a result of market price fluctuation, not actual cost to the producer.

The plaintiff's expert, James Chadbourne, criticized the use of the Take Out Value as a costing method, or component of deriving profit/loss, primarily because it is not based on the true historical cost to Tyson of producing a chicken wing product. In other words, the Take Out Value does not consider that portion of the growing cost attributable to the wing (as opposed to the breast, legs, etc. . . .), the actual costs of production associated with separating and processing the wing for packaging, the packaging, storage, and transportation costs, or any selling costs. According to Chadbourne, although the Take Out Value may be appropriate for internal decision-making purposes, it is not appropriate for cost accounting purposes, i.e., ultimately determining profit or loss.

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[6] Apparently, there was a rather predictable cycle to chicken wing market prices.

The Court finds that the Take Out Value is an inappropriate method for determining the cost of goods sold, and thus, ultimately net margin (profit/loss). The Take Out Value does not reflect any documented true measure of that portion of the net sales dollars that exceeds the historical cost to Tyson of producing an IQF chicken wing product. Without some historical basis for determining the cost, any net margin is suspect, because it reflects the whim of Tyson, rather than economic reality. If, for example, Tyson makes a business decision that it wants its breast products to be more profitable, it can increase its Take Out Value for wings, transfer profit to other products, and show less profit, or a loss for chicken wings. This can be done without regard for what it actually costs Tyson to produce the wing products, or any other products.[7]

As a simple illustration, assuming a constant market price often cents per pound of raw frozen chicken wings, and a constant historical cost of six cents per pound, Tyson could show as much as a ten cent per pound sold profit, by setting the Take Out Value at zero cents per pound, or a virtually unlimited loss, by setting the Take Out Value at any figure above ten cents per pound. This profit or loss could be whatever best serves Tyson's business purposes, but would not reflect economic reality.

Although the Court declines to follow the Take Out Value, it recognizes that the decision not to use the Take Out Value leads to an absurd result, from an economic standpoint, and a problematic result for Tyson, from a legal standpoint. The reason is that Tyson has failed to set forth any evidence of an alternative costing method for the Court. In the absence of cost data, the Court cannot make deductions to the net sales dollars amount arrived at for a monetary sanction, and thus, must award the full net sales dollars to the plaintiff. *See New York Racing Ass'n v. Stroup News Agency Corp.*, 920 F.Supp. 295, 301 (N.D.N.Y.1996) (and cases cited therein); *Manhattan Indus.*, 885 F.2d at 7. Certainly, Tyson has data relating to the cost of producing, processing and selling chicken wing products. However, virtually none of that data was provided during discovery or was offered at trial. The only alternative cost data presented to the Court, was provided by the plaintiff's expert.

The plaintiff's expert testified that he used the Tyson Weekly Packing Cost Reports to determine that the average fixed cost for producing Tyson IQF products was 2.92 cents per pound, and the average variable processing cost was 5.73 cents per pound. The plaintiff's expert opined that the fixed costs should not be used in connection with the cost of goods sold, because they were incurred regardless of whether a single chicken wing or many were produced. There simply was no factual evidence to support this conclusion offered at trial. Accordingly, the Court will use the plaintiff's figures, as derived from the defendant's Weekly reports to arrive at a cost figure of 8.65 cents per pound, as the cost of goods sold for the IQF product.

The total net sales dollars comprising the civil monetary sanction is $9,732,054.00. The total pounds of IQF product sold in the offending periods, and within the ambit of the civil sanction penalty, is 13,095,736 pounds of IQF product. With a cost figure of 8.65 cents per pound, or 0.0865, the Court will reduce the sanction amount by $1,132,781.16. The resulting sanction amount is $8,599,272.84.

Attorney's Fees

Although sanctions for civil contempt can be imposed without a finding of willfulness, *Canterbury Belts, Ltd. v. Lane Walker Rudkin Ltd.*, 869 F.2d 34, 39 (2d Cir.1989), *see also Manhattan Indus.*, 885 F.2d at 5, the Court may consider a contemnor's intent in determining an appropriate sanction. *Canterbury Belts,* 869 F.2d at 39. This is particularly relevant where, as in this case, the plaintiff seeks costs and attorney's fees.

"[I]t is well-settled that the costs of prosecuting a party's contempt are recoverable where the violation of the court order has been 'willful.' " *Upjohn,* 894 F.Supp. at 136, *citing Manhattan Indus.,* 885 F.2d at 8; *Vuitton,* 592 F.2d at 130-131. However, "willfulness is [not] necessarily a prerequisite to a fee award, but rather [] willfulness is a commonly accepted justification for awarding attorney fees." *Sizzler Family Steak Houses v. Western Sizzlin Steak House, Inc.,* 793 F.2d 1529, 1535 (11th Cir.1986), *see also Weitzman v. Stein,* 98 F.3d 717, 719 (2d Cir.1996) ("Thus, while willfulness may not necessarily be a prerequisite to an award of fees and costs, (footnote omitted) a finding of willfulness strongly supports granting them."). In *Manhattan Industries,* declined to disturb a lower court's finding that, although the contemnor had displayed a " 'callous disregard for the rights' " of the plaintiff and the " 'mandates of the federal courts,' " such conduct did not rise to the level of the intent, and thus, would not mandate an award of attorney's fees.

In the instant case, the Court finds that Tyson has exhibited no more than a callous disregard for the rights of Hester, in that it failed to diligently police its compliance with the Dismissal Order. However, the Court does not find that Tyson willfully sought to gain an economic benefit by using the WING FLINGS mark. Accordingly, the Court declines to award the plaintiff attorney's fees and costs.

III. CONCLUSION

Based on the foregoing findings of fact and conclusions of law, the Court hereby ORDERS that judgment should be entered for the plaintiff, Hester Industries, Inc., in the amount of $8,599,272.84 plus interest.

IT IS SO ORDERED.

APPENDIX E

HESTER INDUSTRIES, INC., Plaintiff,

v.

TYSON FOODS, INC., Defendant.

No. 93-CV-0391.

United States District Court,
N.D. New York.

Nov. 17, 1997.

* * * * * * * * *

Nixon & Vanderhye, P.C. (Robert W. Adams, Duane M. Byers, of counsel), Arlington, VA, Kohn, Bookstein & Karp (Richard A. Kohn, of counsel), Albany, NY, for plaintiff.

Levene, Goulin & Thompson (David M. Gouldin, of counsel), Binghamton, NY, for defendant.

MEMORANDUM-DECISION & ORDER

McAVOY, Chief Judge.

I. BACKGROUND

Pending before the Court are several post-judgment motions made by defendant Tyson Foods, Inc. ("Tyson") and plaintiff Hester Industries, Inc. ("Hester").

First, Tyson moves, pursuant to Fed. R.Civ.P. 59(e) and Rule 7(g) of the Local Rules for the Northern District of New York, to alter or amend a judgment of this court dated August 11, 1997. According to Tyson, the Court made clear errors of fact upon which the judgment is based, and thus the motion should be granted to prevent manifest injustice.

Tyson further requests that the Court stay execution of the judgment.

Second, Hester requests that in the event the Court grants in whole or in part Tyson's Rule 59(e) motion, the Court grant Hester's cross-motion to alter or amend under Rule 59(e). Hester also seeks, pursuant to Rule 60(a), to correct certain clerical errors in the decision of this Court dated July 29, 1997.

For the reasons that follow, Tyson's Rule 59(e) is DENIED, and accordingly, Hester's Rule 59(e) cross-motion need not be addressed. Further, Tyson's motion to stay execution pending appeal is GRANTED to the extent stated herein, and Hester's Rule 60(a) motion to correct clerical errors is GRANTED to the extent stated herein.

II. DISCUSSION

A. Tyson's Rule 59(e) Motion

A motion to alter or amend judgment made pursuant to Fed.R.Civ.P. 59(e) must adhere to stringent standards. The Court's ruling on such a motion "[is] committed to the sound discretion of the district judge and will not be overturned on appeal absent an abuse of discretion." *McCarthy v. Manson,* 714 F.2d 234, 237 (2d Cir.1983). Rule 59(e) recognizes three possible grounds upon which relief may be based: (1) an intervening change in controlling law; (2) the availability of new evidence not previously available; (3) the need to correct a clear error of law or fact; and (4) to prevent manifest injustice. *Atlantic States Legal Foundation v. Karg Bros.,* 841 F.Supp. 51, 53 (N.D.N.Y.1993). The first two grounds are inapplicable to the matter at hand. No intervening changes in the law have occurred and new evidence has not come to light that previously was unavailable. That leaves us with only grounds three and four—Tyson must demonstrate a clear error of law or fact, or manifest injustice in the Court's July 29, 1997 decision.

Tyson argues that the Court made manifest errors of fact upon which the judgment is based, and that the motion should be granted to prevent manifest injustice. The substance of Tyson's argument is that the Court did not properly calculate the monetary sanction imposed against Tyson for civil contempt resulting from Tyson's failure to adhere to a prior Dismissal Order issued by the Court. Specificallly, Tyson asserts that the Court made manifest errors with respect to its analysis of (1) cost; (2) processing cost; (3) Price/Costco; and (4) take-out value. Each of these issues will be addressed in turn.

(1) Cost Analysis

The Court imposed against Tyson a civil monetary sanction of $8,599,272.84. The Court arrived at that figure by calculating Tyson's total net sales dollars relating to the use of the WING FLING mark, which was $9,732,054. From that figure, the Court deducted processing costs of $1,132,781.16 to arrive at the sanction amount.

Tyson argues that, in calculating processing costs, the Court failed to deduct selling, general and administrative and interest costs from net sales dollars. According to Tyson, sufficient evidence was introduced at trial to warrant deducting these costs.

Although there was testimony at trial as to other costs, Tyson is incorrect in asserting that such testimony sufficiently established its costs. As previously explained, Tyson bore the burden of establishing its costs. *See* July 29, 1997 decision of this Court, at 23. Here, Tyson failed to properly quantify these costs to the Court. Thus, the Court did not, as Tyson asserts, overlook or misconstrue the testimony relating to these costs, but rather determined that the evidence did not sufficiently establish these costs. Consequently, because Tyson failed to establish these other costs, the Court did not deduct them from net sales.

(2) Processing Costs

In arriving at processing costs of $1,132,781.16, the Court used the per pound processing cost of 8.65 cents testified to by Hester's expert.

Tyson argues that the Court overlooked the testimony of William Whitfield, a Tyson Foods vice-president, who testified that the average cost per pound for processing costs for Tyson's IQF wing product is 10 to 12 cents per pound.

The Court, however, did not overlook Whitfield's testimony. To the contrary, the Court determined that the testimony of Whitfield did not sufficiently establish processing costs. Indeed, a review of the trial tesitmony reveals that Whitfield did not adequately establish the processing costs relating specifically to IQF wing product.

(3) Price/Costco

The Court included $6,724,627 in net sales dollars of product codes 9612 and 7653, which represent IQF product sold to club store company, Price/Costco. In brief, the Court included this amount by reasoning that the ''use of the offending mark in connection with the pricing documents shown to [club stores] could arguably could have provided a benefit to Tyson, and a corresponding injury to Hester.'' Decision of this Court dated July 29, 1997, at 19.

Tyson argues that the evidence at trial did not support this conclusion, and that there is no evidence that Hester was injured as a result.

Only two comments are necessary. First, in calculating an appropriate monetary sanction award, a court need not find evidence of either lost sales or likelihood of confusion. *See*

Manhattan Ind., Inc. v. Sweater Bee by Banff. Ltd., 885 F.2d 1, 2 (2d Cir.1989), *cert. denied,* 494 U.S. 1029, 110 S.Ct. 1477, 108 L.Ed.2d 614 (1990). Thus, a specific showing that plaintiff suffered legal damages is not required. Second, the Court disagrees with Tyson, for reasons previously explained, that Hester may not have suffered injury. *See* Decision of this Court dated July 29, 1997, at 18-19.

(4) Take Out Value

In calculating the sanction award, the Court found that the Take Out Value, which Tyson relied upon to establish costs of goods, to be in improper costing method.

Tyson argues that the testimony of various witnesses establishes that Take Out Value is an appropriate costing method. Accordingly, Tyson contends that the Court should have applied the Take Out Value method to reduce net sales. Alternatively, Tyson argues that the Court should at least deduct 10% of Take Out Value cost of meat on the basis of testimony from the plaintiff's expert that relied upon certain testimony from Whitfield. Again, the Court disagrees.

Tyson has the burden to show the amount of its costs. Here, Tyson chose to use the Take Out Value in calculating its costs. The Court found that Take Out Value was an improper method to use here. Accordingly, the Court rejected Tyson's cost figures that were calculated using this method. Tyson is referred to the Court's reasoning in its July 29, 1997 decision for a discussion that explains why the Court determined Take Out Value to be improper. As to plaintiff's alternative argument, the Court found that the evidence did not establish Whitfield's contentions. Therefore, the Court did not make a deduction for the value of wings that Tyson purchased from other companies.

In sum, the issues raised by Tyson's Rule 59(e) motion, asserting that in certain instances this Court did not properly calculate the monetary sanction award imposed against Tyson, fail to show that manifest injustice will result unless the Court alters or amends the judgment. Consequently, Tyson's motion is denied.[1]

B. Hester's Rule 60(a) Motion

Hester requests that the Court correct four clerical errors that appear in the Court's decision dated July 29, 1997, ___ F.Supp. ___ [1997 WL 580542]. After careful review, the Court amends the decision as follows.

[Editor's Note: Corrections are incorporated at ___ F.Supp. ___ [1997 WL 580542].]

C. Tyson's Motion to Stay Execution of the Judgment

Lastly, Tyson moves to stay execution of the judgment filed August 11, 1997. If an appeal is taken, Tyson may stay execution of the judgment pending appeal by posting a supersedeas bond in the amount of the judgment, plus the post-judgment interest.

III. CONCLUSION

For the reasons stated above, Tyson's Rule 59(e) motion is DENIED, and accordingly, Hester's Rule 59(e) cross-motion need not be addressed. Further, Tyson's motion to stay execution pending appeal is GRANTED to the extent stated herein, and Hester's Rule 60(a) motion to correct clerical errors is GRANTED to the extent stated herein.

IT IS SO ORDERED.

APPENDIX F

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF NEW YORK

HESTER INDUSTRIES, INC.,
Plaintiff,

v.

TYSON FOODS, INC. and
THE GOLUB CORPORATION, d/b/a Price Chopper,
Defendants.

STIPULATED ORDER OF DISMISSAL

Pursuant to Rule 41 of the Federal Rules of Civil Procedure and in accordance with the terms of the attached Settlement Agreement between the parties, this action is hereby dismissed with prejudice, including all claims or causes of action asserted herein. Further, pursuant to the agreement of the parties in settlement, no judgment against either party will be entered and all parties will bear their own costs and attorneys' fees.

SO ORDERED.

Albany, New York	/s/ Thomas J. McAvoy
4-9-92	Thomas J. McAvoy
Date	United States District Judge

STIPULATED TO:

FOR HESTER INDUSTRIES INC.:

/s/ Robert W. Adams 3/31/92
Robert W. Adams
NIXON & VANDERHYE
2200 Clarendon Blvd.

Arlington, Va. 22201
Tel.: (703) 875-0400

FOR TYSON FOODS, INC.:

/s/ Richard H. Comper 4/1/92
Richard H. Comper
WILLIAN BRINKS OLDS HOFER GILSON & LIONE
455 N. Cityfront Plaza Dr.
Suite 3600
Chicago, Ill. 60611
Tel.: (312) 321-4200

FOR THE GOLUB CORPORATION:

/s/ Frederick C. Riester
Frederick C. Riester
Iseman, Cunningham, Riester & Hyde
9 Thurlow Terrace
Albany, N.Y. 12203
Tel.: (518) 462-4199

SETTLEMENT AGREEMENT

THIS AGREEMENT is made and entered into effectively this 12th day of March, 1992, by and between Hester Industries, Inc. (hereinafter "Hester"), Tyson Foods, Inc. (hereinafter "Tyson"), and The Golub Corporation (hereinafter "Golub");

WHEREAS, Hester, for many years, has been using the mark WING-DINGS in association with the processing and sale of cooked chicken wings;

WHEREAS, Tyson, since 1982, has been using the mark WING FLINGS in association with the processing and sale of uncooked chicken wings;

WHEREAS, Golub, through its Price Chopper retail outlets has been selling Tyson's WING FLINGS;

WHEREAS, Hester filed a civil action in the United States District Court for the Northern District of New York asserting that Tyson and Golub have diluted Hester's WING-DINGS trademark by the sale of chicken wings under the mark WING FLINGS in violation of the New York Anti-Dilution Statute and anti-dilution statutes of several other states;

WHEREAS, Tyson and Golub have filed Answers in which they deny any wrong doing;

WHEREAS, the parties desire to resolve the controversies between them on an amicable basis and to terminate the pending civil action between them;

NOW, THEREFORE, in consideration of the mutual promises, releases and covenants hereinafter set forth, the parties agree as follows:

1. Tyson agrees to stop all use of the mark WING FLINGS in association with poultry products within a reasonable period of time in order to phase out its existing

inventory. It is Tyson's best estimation at this time that it will phase out use of this inventory as follows:

a. The 5 lb. bag, No. 141, should be exhausted by September 1, 1992; and

b. All other inventory bearing the WING FLINGS mark should be exhausted by December 1, 1992.

2. The parties agree that if Tyson has not exhausted its existing inventory at the end of the above-described periods, that Tyson will then inform Hester of the new estimated time for exhausting this inventory. However, in no event should the above dates be extended beyond two (2) months. Tyson agrees that from the effective date of this Agreement it will not have any new packaging or other materials produced bearing the WING FLINGS mark.

3. Golub agrees that it will stop selling Tyson's products bearing the WING FLINGS mark in approximately six (6) months from the date that Tyson ceases use of WING FLINGS. Golub only sells Tyson's WING FLINGS products in the five pound bag known as No. 141. Accordingly, based upon Tyson's projection of exhausting this inventory by September 1, 1992, Golub should exhaust its inventory of Tyson WING FLINGS products by March 1, 1993. The parties agree that if Golub has not exhausted existing inventory by March 1, 1993, that Golub will inform Hester of the new estimated time for exhausting inventory. However, in no event shall the above date be extended beyond two (2) additional months.

4. Tyson recognizes that WING-DINGS is a strong and well-known mark to persons within the food service or institutional market.

5. Hester agrees to pay Tyson the sum of One Hundred and Fifty Thousand Dollars ($150,000.00), said payment to be made within ten (10) days of the filing of the stipulated

dismissal papers described below.

6. Hester will promptly dismiss with prejudice by stipulation of the parties without the entry of any judgment, injunction, or order for injunctive relief, Civil Action No. 89-CV-949 pending in the United States District Court for the Northern District of New York. However, such dismissal will be dependent on the terms of this Agreement being subjected to enforcement by specific performance by the United States District Court for the Northern District of New York. As a result, a copy of this Settlement Agreement will be filed with the Court along with the dismissal papers. Each party will bear its own costs and attorneys' fees.

7. Hester will promptly dismiss with prejudice its Notice of Opposition to the pending WING FLINGS application and Tyson will promptly thereafter abandon with prejudice the WING FLINGS application.

8. Hester agrees that Tyson can use the mark WING FLINGERS provided that Tyson always uses one of its housemarks in close association with the WING FLINGERS mark.

9. Hester hereby releases all claims that it now has against Tyson and Golub for trademark infringement, unfair competition, anti-trust or dilution. Hester agrees that the current names and trademarks set forth in Exhibit A hereto (except WING FLINGS) used by Tyson do not infringe upon or dilute any rights of Hester and that Hester will not seek to block their use, nor will Hester seek to block registration of any of the names or trademarks except on the grounds that they are generic or merely descriptive.

10. Tyson hereby releases all claims that it now has against Hester for trademark infringement, unfair competition, anti-trust or dilution. Tyson agrees that the current

names and trademarks used by Hester and set forth in Exhibit B attached hereto, do not infringe upon or dilute any rights of Tyson, and that Tyson will not seek to block their use, nor will Tyson seek to block registration of any of the names or trademarks, except on the grounds that they are generic or merely descriptive.

11. All of the above terms are subject to all prior agreements between the parties and the terms herein, and this Settlement Agreement shall not alter the terms of any such prior agreements.

12. This Agreement shall be binding upon and shall enure to the benefit of the parties hereto, their successors, assigns, subsidiaries, affiliated companies, and all those in active concert or participation with them.

ACCEPTED AND AGREED.

HESTER INDUSTRIES, INC.

By: /s/ Jeffrey D. Hester
Title: CEO

Dated: 4-1-92

TYSON FOODS, INC.

By: /s/ Donald E. Wray
Title: C.O.O.

Dated: 3-27-92

THE GOLUB CORPORATION

By: /s/ William J. Kanneally
Title: V.P. and Secretary

Dated: 4-3-92

APPENDIX G

UNITED STATES COURT OF APPEALS
FOR THE SECOND CIRCUIT
United States Court House
40 Foley Square
New York 10007

Carolyn Clark Campbell
Clerk

At a stated term of the United States Court of Appeals for the Second Circuit, held at the United States Courthouse, Foley Square, in the City of New York, on the twenty-third day of December one thousand nine hundred and ninety-eight.

Dkt. No: 97-9606

HESTER INDUSTRIES, INC.,
Plaintiff-Appellee-Cross Appellant,
v.

TYSON FOODS, INC.,
Defendant-Appellant-Cross-Appellee.

[stamped filed December 23, 1998]

A petition for rehearing en banc having been filed herein by the appellee-Cross-Appellant Hester Industries, Inc.

Upon consideration by the panel that decided the appeal, it is Ordered that said petition for rehearing is **DENIED**.

It is further noted that the petition for rehearing en banc has been transmitted to the judges for the court in regular active service and to any other judge that heard the appeal and that no such judge has requested that a vote be taken thereon.

FOR THE COURT
CAROLYN CLARK CAMPBELL, CLERK

By: /s/ Beth J. Meador
Beth J. Meador,
Administrative Attorney

APPENDIX H

03/19/1993 14:56 FROM WILLIAN, BRINKS, OLDS
TO 3#272#2#17038164100# P.02

[Letterhead of
WILLIAN BRINKS OLDS HOFER GILSON & LIONE]

March 19, 1993

RICHARD G. LIONE
(312) 381-4804

VIA FACSIMILE (703) 816-4000
CONFIRMATION BY MAIL

Mr. Robert W. Adams
Nixon & Vanderhye P.C.
1100 North Glebe Road, 8th Floor
Arlington, Virginia 22201-4714

Dear Mr. Adams:

Your letter (facsimile) of March 17, 1993, was given to me because Dick Compere is out of the office this week. I have discussed its content with Tyson's people and an investigation has been conducted.

The advertisement by Shopper's was run by Shoppers, not Tyson. It uses an old ad slick which Shoppers apparently still had in its possession. Tyson has made new ad slicks using the changed mark available to its customers, but Shoppers mistakenly used the old one. Shoppers is not sell-ing product under the WING FLINGS mark. Tell your client to provide us with specifics if he believes Tyson "has continued to sell 5 lb. bags of WING FLINGS products", or any other WING FLINGS products for that matter.

Hester's "demand" that we provide you with an accounting of some kind is categorically refused. If Hester provides us with the aforementioned specifics as to sales of WING FLINGS he has seen, we will investigate. Short of that, Tyson has better things to do with its time.

Very truly yours,
/s/ Richard G. Lione
Richard G. Lione

RGL:mek

APPENDIX I

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF NEW YORK
BINGHAMTON DIVISION

Civil Action No.
93-CV-0391 TJM DNH

HESTER INDUSTRIES, INC.

Plaintiff,

v.

TYSON FOODS, INC.

Defendant.

[stamp—U.S. DISTRICT COURT, N.D. OF N.Y., ORIGINAL FILED, JUL - 6 1993, GEORGE A. RAY, Clerk, BINGHAMTON]

ANSWER

Defendant, Tyson Foods, Inc. (hereinafter "Tyson" or "defendant") answers the allegations of each respective paragraph of the "Complaint for Breach of Contract, Violation of Stipulated Order of Dismissal, Trademark Dilution, Trademark Infringement and Unfair Competition" filed the 25th day of March, 1993 (hereinafter "the Complaint") as follows:

1. Tyson admits upon information and belief that plaintiff, Hester Industries, Inc. (hereinafter "Hester" or "plaintiff"), is a corporation of the state of West Virginia with its principal place of business located at 104 Main Street, Moorefield, West Virginia 26836. Tyson is without information sufficient to form a belief as to the other allegations of Paragraph 1 of the Complaint and therefore denies these allegations.

2. The allegations of Paragraph 2 of the Complaint pertaining to Tyson being incorporated in the State of Arkansas are denied because it is a Delaware corporation. The remaining allegations of Paragraph 2 of the Complaint are admitted.

3. Upon information and belief, the allegations of Paragraph 3 of the Complaint are denied.

4. The allegations of Paragraph 4 of the Complaint are admitted.

5. The allegations of Paragraph 5 of the Complaint are admitted.

COUNT I FOR BREACH OF CONTRACT

6. With respect to the allegations set forth in Paragraph 6 of the Complaint, Tyson admits only that upon information and belief plaintiff sells various poultry products through various distribution channels in various parts of the United States. Tyson is without information sufficient to form a belief as to the other allegations of Paragraph 6 of the Complaint and therefore denies these allegations.

7. With respect to the allegations set forth in Paragraph 7 of the Complaint, Tyson admits only that upon information and belief Hester has used the term "wing-dings" at various times in connection with certain poultry products sold in some, but not all, of the states of the United States. Tyson is without information sufficient to form a belief as to the other allegations of Paragraph 7 of the Complaint and therefore denies these allegations.

8. Tyson admits only that a stylized "wing-dings" issued as United States Trademark Registration No. 810,210 on or about June 21, 1966. Tyson is without information sufficient to form a belief as to the other allegations of Paragraph 8 of the Complaint and therefore denies these allegations.

9. Tyson admits that, pursuant to 15 U.S.C. § 1072, registration of a mark on the principal register is usually sufficient to provide constructive notice of the registrant's claim of ownership. All other allegations set forth in Paragraph 9 of the Complaint are denied.

10. Tyson admits only that "wing-dings" in block letters issued as United States Trademark Registration No. 1,532,194 on or about March 28, 1989. Tyson is without information sufficient to form a belief as to the other allegations of Paragraph 10 and therefore denies these allegations.

11. Tyson is without information sufficient to form a belief as to the allegations of Paragraph 11 of the Complaint and therefore denies these allegations; however, Tyson avers that, upon information and belief, Hester does not raise its own poultry but merely purchases it in the marketplace.

12. Tyson is without information sufficient to form a belief as to the allegations of Paragraph 12 of the Complaint and therefore denies these allegations.

13. Tyson admits that Paragraph 4 of the Settlement Agreement contains a recitation on March 27, 1992 that "wing-dings" was a strong and well-known mark to persons within the food service or institutional market. However, Tyson is without information sufficient to form a belief as to the other allegations of Paragraph 13 and therefore denies these allegations.

14. Tyson is without information sufficient to form a belief as to the allegations of Paragraph 14 and therefore denies these allegations.

15. Tyson admits that it is a publicly-owned corporation and that it sells poultry products throughout the United States and many foreign countries. Tyson further admits that Hester also sells various poultry products in various parts of

the United States. Tyson is without information sufficient to form a belief as to the remaining allegations of Paragraph 15 and therefore denies these allegations.

16. Tyson admits that it used "wing flings" in the past, at least as early as August 1982, in connection with poultry, including without limitation chicken wing products. All other allegations set forth in Paragraph 16 of the Complaint are denied.

17. The allegations of Paragraph 17 of the Complaint are admitted except that Tyson lacks information sufficient to form a belief as to when "Hester first became aware of Tyson's use" of "wing flings" and therefore denies the third sentence of Paragraph 17 of the Complaint.

18. With respect to the allegations set forth in Paragraph 18 of the Complaint, Tyson admits only that:

> (i) in response to plaintiff's May 8, 1984 Notice of Opposition, the USPTO initiated an opposition proceeding;
>
> (ii) Tyson and plaintiff engaged in negotiations that eventually resulted in Tyson withdrawing without prejudice its pending application for "wing flings"; and
>
> (iii) Tyson expressly abandoned its "wing flings" application without prejudice to its rights on May 7, 1985.

Tyson is without information sufficient to form a belief as to the remaining allegations set forth in Paragraph 18 of the Complaint and therefore denies these allegations.

19. The allegations of Paragraph 19 of the Complaint are denied, except that Tyson admits that in February, 1986, plaintiff filed a civil action for trademark infringement and unfair competition in the United States District Court for the

District of New Jersey, such action was subsequently won by Tyson after a jury trial and appellate affirmance of the Judgment.

20. Tyson admits that no cause of action explicitly for "trademark dilution" under New York law was presented to the United States District Court for the District of New Jersey in the above-mentioned litigation, but Tyson avers that any such cause of action would have been a compulsory claim and is therefore merged in and subject to the outcome of the New Jersey litigation. Tyson is without information sufficient to form a belief as to the remaining allegations of Paragraph 20 and therefore denies these allegations.

21. The allegations of Paragraph 21 of the Complaint are admitted except that Tyson denies the limited bases for the jury's findings because there was additional evidence, and upon information and belief, there were other bases that the jury took into consideration, such as (without limitation) "flings" being different from "dings" in sight, sound and meaning.

22. The allegations of Paragraph 22 of the Complaint are denied to the extent that they purport to state the reasons for the jury's findings; however, the facts that were found are not denied.

23. The allegations of Paragraph 23 of the Complaint are admitted, except that judgments, rather than "verdicts" are usually what appellate courts affirm.

24. The allegations of Paragraph 24 of the Complaint are admitted.

25. The allegations of Paragraph 25 of the Complaint are admitted.

26. The allegations of Paragraph 26 of the Complaint are admitted.

27. The allegations of Paragraph 27 of the Complaint are admitted.

28. With respect to the allegations set forth in Paragraph 28 of the Complaint regarding the Settlement Agreement, Tyson admits only that:

> (i) Tyson agreed to stop use of "wing flings" in association with poultry products within a reasonable period of time in order to phase out its existing inventory;
>
> (ii) it was Tyson's best estimation that the five-pound bag, no. 141, would be exhausted by September 1, 1992 from Tyson's inventory; and,
>
> (iii) it was Tyson's best estimation that all of Tyson's inventory bearing "wing flings" would be exhausted by December 1, 1992.

All other allegations set forth in Paragraph 28 of the Complaint are denied.

29. Tyson acknowledged an inadvertent, temporary packaging error that has since been corrected. Tyson did, in fact, stop using the "wing flings" mark except for this temporary error. Thus, Tyson admits to some instances of inadvertently mispackaging some of its products under "wing flings" after the dates proscribed in the Settlement Agreement. This inadvertent mispackaging was an insubstantial breach, if any, for which Tyson promptly made an Offer of Judgment under Rule 68, Fed.R.Civ.P., to more than adequately compensate Hester for any damages it allegedly suffered. Tyson is not mispackaging any of its products under "wing flings" presently and Tyson does not intend to do it in the future. The other allegations set forth in Paragraph 29 of the Complaint are denied.

30. Tyson admits when its management became aware of the inadvertent mispackaging it immediately took steps to correct the inadvertent mispackaging problem and advised Hester's attorneys of same. The other allegations set forth in Paragraph 30 of the Complaint are denied.

31. With respect to the allegations set forth in Paragraph 31 of the Complaint, Tyson admits only that:

> (i) a letter dated March 17, 1993, was sent near the end of the business day by plaintiff's counsel to Tyson's former outside litigation counsel to advise of a "wing flings" advertisement in the March 10, 1993 edition of the *Washington Post;*
>
> (ii) this March 17th letter demanded a response by March 19, 1993, which Tyson was unable to meet on a mere one to two days notice, as a detailed investigation of the allegations took longer; and
>
> (iii) Tyson preliminarily responded through its counsel (at that time) in a letter dated March 19, 1993, that: the March 10, 1993 advertisement was a mistake on the part of the newspaper and that products were not being sold under "wing flings." Additionally, Tyson specifically requested plaintiff to provide proof of sales of any "wing flings" products; and declined to provide plaintiffs with any accounting information because it had better things to do with its time until and if such proofs were provided. However, Tyson also instigated its own internal investigation and discovered a few instances of the inadvertent "wing flings" mispackaging, promptly informed Hester's attorneys of the corrective action taken by Tyson, provided Hester with records and other information regarding the mispackaging error and otherwise attempted reasonably to resolve this matter as set forth in Paragraphs 29 and 30, hereinabove.

All other allegations set forth in Paragraph 31 of the Complaint are denied.

32. The allegations set forth in Paragraph 32 of the Complaint are denied, and Paragraphs 29-31 of Tyson's Answer, hereinabove, are incorporated herein by reference.

33. The allegations set forth in Paragraph 33 of the Complaint are denied. Tyson has acknowledged its error, taken corrective action, tried its best to resolve this matter and told Hester that it intends to abide by the previous Settlement Agreement.

34. Tyson admits only that it innocently, inadvertently and temporarily breached the Settlement Agreement and avers that corrective action, including an apology and offer to settle out of court, has been taken. Tyson also admits that the only alleged cause of action for which relief could possibly be granted is the breach of contract. As stated previously, there is a Settlement Agreement in place which prevents Tyson from using ''wing flings'' on its products and Tyson has reaffirmed its intent to abide by that Settlement Agreement. Further, Tyson is not mispackaging any of its products with ''wing flings'' presently and Tyson does not intend to in the future, all in accordance with the Settlement Agreement that was filed with the dismissal papers with the Court. Thus, there has not been and cannot be any showing of irreparable harm, and there is no basis for the Court to enter a preliminary or permanent injunction, to grant the destruction of Tyson's ''wing flings'' materials, or to grant any monetary relief for Hester other than any provable damages for an insubstantial breach of contract (i.e., no increased damages/profits, punitive damages, or attorneys' fees). Because it has confirmed its intention to abide by the Settlement Agreement and has elected to enforce the Settlement Agreement, Hester is entitled to monetary relief only for its alleged breach of contract cause of action, not for the

other causes of action set forth in the Complaint, namely, violation of stipulated order of dismissal, trademark dilution, trademark infringement, and unfair competition. The other allegations set forth in Paragraph 34 of the Complaint are denied.

COUNT II FOR VIOLATION OF DISMISSAL ORDER

35. Answering Count II of the Complaint, Tyson incorporates herein by reference Paragraphs 6 through 34 of this Answer and further avers:

36. The allegations set forth in Paragraph 36 of the Complaint are denied.

COUNT III FOR TRADEMARK DILUTION

37. Answering Count III of the Complaint, Tyson incorporates herein by reference Paragraphs 6 through 36 of this Answer and further avers:

38. The allegations set forth in Paragraph 38 of the Complaint are denied.

39. Tyson is without information sufficient to form a belief as to whether the common law of the states of Michigan and Minnesota have substantially similar trademark dilution laws to that set forth in New York Business Law, §368-d and therefore denies these allegations. Tyson further avers that any cause of action for breach of any such laws is subject to, merged within and barred by the judgment in the New Jersey litigation referred to hereinabove. All other allegations set forth in Paragraph 39 of the complaint are denied.

40. The allegations set forth in Paragraph 40 of the Complaint are denied.

COUNT IV FOR TRADEMARK INFRINGEMENT

41. Answering Count IV of the Complaint, Tyson

incorporates herein by reference Paragraphs 6 through 40 of this Answer and further avers:

42. The allegations set forth in Paragraph 42 of the Complaint are denied.

COUNT V FOR UNFAIR COMPETITION

43. Answering Count V of the Complaint, Tyson incorporates herein by reference Paragraphs 6 through 42 of this Answer and further avers:

44. The allegations set forth in Paragraph 44 of the Complaint are denied.

DEFENDANT'S AFFIRMATIVE DEFENSES

Tyson asserts the following affirmative defense with respect to ''Counts I-V'' set forth in the Complaint.

First Affirmative Defense

45. The Complaint fails to state a claim upon which relief can be granted.

Second Affirmative Defense

46. Hester is barred by the doctrine of election of remedies from asserting any claim or cause of action and from obtaining any recovery on any alleged claim, cause of action or ''count'' other than breach of contract.

Third Affirmative Defense

47. By asserting and reaffirming the Settlement Agreement and suing for breach of contract, Hester has waived whatever rights it may have had to sue for other relief, such as violation of the stipulated order of dismissal, trademark infringement, trademark dilution and unfair competition.

Fourth Affirmative Defense

48. Hester is barred by *res judicata* and is collaterally estopped from asserting, maintaining and recovering any relief on any claim, cause of action or count previously decided.

Fifth Affirmative Defense

49. Hester is barred from obtaining any relief or recovery for any provable claim, cause of action or count associated with the alleged Tyson activities, including any sales, occurring outside of the State of New York.

Sixth Affirmative Defense

50. Tyson incorporates herein by reference all of the applicable defenses it previously made in its previous Answers in the related litigations.

Seventh Affirmative Defense

51. By maintaining this action under the present circumstances, including the accounting, records, offer of judgment, and other information provided by Tyson, Hester is needlessly wasting the Court's time and proliferating unnecessary litigation, which should be considered by the Court as a mitigating circumstance.

WHEREFORE, Tyson prays that:

A. The Complaint in this Action (and all supplements and amendments thereto) be dismissed with prejudice.

B. Plaintiff have and receive nothing of Tyson.

C. Tyson have such other, further, legal or equitable relief as may be just and proper.

This the 2nd day of July, 1993.

Respectfully submitted,

/s/ David M. Gouldin
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Bar Code No. 101838
Levene, Gouldin & Thompson
Post Office Box F-1706
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Telephone No. 607-763-9200
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CERTIFICATE OF SERVICE

I hereby certify that the foregoing ANSWER has been served on plaintiff by depositing a true and correct copy thereof with the United States Postal Service, first class, postage prepaid, to the below addresses for counsel for plaintiff on this 2nd day of July, 1993:

Robert W. Adams
Nixon & Vanderhye, P.C.
Suite 800
1100 North Glebe Road
Arlington, Virginia 22201

Edward L. Bookstein
Kohn, Bookstein & Karp, P.C.
Ninety State Street
Suite 929
Albany, New York 12207

/s/ David M. Boulder
Counsel for Defendant
Tyson Foods, Inc.

APPENDIX J

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF NEW YORK
(BINGHAMTON)

Civil Action No. 93-CV-0391

HESTER INDUSTRIES, INC.,
104 Main Street
Moorefield, West Virginia 26836

Plaintiff,

v.

TYSON FOODS, INC.
2210 Oaklawn
Springdale, Arkansas 72756

Defendant.

[stamp—U.S. DISTRICT COURT, N.D. OF N.Y., ORIGINAL FILED, ASSIGNMENT "DOCKET", MAR 25, 1993- 6 1993, GEORGE A. RAY, Clerk, ALBANY]

COMPLAINT FOR BREACH OF CONTRACT, VIOLATION OF STIPULATED ORDER OF DISMISSAL, TRADEMARK DILUTION, TRADEMARK INFRINGEMENT, AND UNFAIR COMPETITION

1. Plaintiff, Hester Industries, Inc. (hereafter referred to as Hester), is a relatively small, family-owned corporation of the State of West Virginia. Hester's principal place of business is located at 104 Main Street, Moorefield, West Virginia 26836.

2. On information and belief, defendant, Tyson Foods, Inc. (hereafter referred to as Tyson) is a corporation of the

State of Arkansas. Tyson's principal place of business is located at 2210 Oaklawn, Springdale, Arkansas 72756.

3. The amount in controversy exceeds the sum or value of Fifty Thousand Dollars ($50,000), exclusive of interest and costs.

4. Jurisdiction of this Court over the subject matter of this Complaint is founded upon Title 28, United States Code, Sections 1332 and 1338; Title 15, United States Code, Section 1121; and paragraph 6 of the Settlement Agreement signed by the parties and attached to the "Stipulated Order of Dismissal" entered and filed by this Court on April 9, 1992.

5. Venue of this Court is founded upon Title 28, United States Code, Section 1391; and is admitted to exist based upon paragraph 6 of the Settlement Agreement signed by the parties and attached to the aforesaid Stipulated Order of Dismissal.

COUNT I FOR BREACH OF CONTRACT

6. For many years, and long prior to the acts complained of herein, Hester has manufactured and sold a wide variety of poultry meat products throughout essentially the entire United States. Typically, such products are sold by Hester to its wholesalers, who thereafter resell these goods.

7. At least as early as October 18, 1964, Hester (through its predecessor company Pierce Foods Corporation) adopted and first used the trademark WING-DINGS in association with one of its chicken wing products in order to distinguish such goods from those of others. Since that time, the WING-DINGS mark has been continuously used by Hester and/or its predecessors in interstate commerce and through virtually the entire United States (including in this judicial district).

8. Hester owns the entire right, title and interest in and to United States Trademark Registration No. 810,210 for the mark WING-DINGS, as well as the goodwill of the business with which such mark has been used. This Registration issued on June 21, 1966 and is currently registered under the Lanham Act of 1946, 15 U.S.C. §1051 *et seq*. Moreover, this Registration for WING-DINGS enjoys the status of incontestability under the provisions of 15 U.S.C. §1065.

9. By law (15 U.S.C. §1072), the issuance of this Registration gave constructive notice to the world of Hester's claim of ownership to the WING-DINGS mark.

10. Furthermore, although this Registration displays the WING-DINGS mark in a somewhat stylized manner, Hester and its predecessors have for many years (and long prior to any of the acts complained of herein) used its WING-DINGS mark in a variety of other styles, including in block letters. Therefore, Hester's trademark rights extend to all uses of that mark, in any style whatsoever. In this connection and based upon its prior use of the WING-DINGS mark (dating back long prior to any of the actions complained of herein), Hester filed on November 27, 1985 for the registration of its WING-DINGS mark in block letters. This trademark application matured into Registration No. 1,523,194, which issued on March 28, 1989.

11. For many years, and since at least as early as 1964, Hester and its predecessors have utilized great care and incurred substantial expense in the manufacture, sale and promotion of its WING-DINGS products. As a direct result of these extensive activities, Hester's WING-DINGS chicken wing products have, at all times, reflected the highest standards of quality. In this regard, Hester maintains such highest standards of product quality by, *inter alia*, its manufacturing techniques and through its reheating instructions.

12. Furthermore, through the distribution, advertising and sale of its products under the WING-DINGS mark, Hester and its predecessors have created substantial goodwill in association with that mark. Consequently, the general public has become aware that the WING-DINGS mark as used on or in connection with poultry meat products indicates origin with, sponsorship by, or other connection with Hester and those persons who purchase such goods directly or indirectly from Hester.

13. The WING-DINGS trademark is a "strong" and/or "famous" mark. Significantly, Tyson admitted that this mark is "a strong and well-known mark to persons within the food service or institutional market" in paragraph 4 of the aforesaid Settlement Agreement.

14. In addition to the WING-DINGS trademark, Hester (or its predecessor) first adopted and used the mark OVEN WING-DINGS in January 1982 in connection with WING-DINGS products that were specifically intended for retail consumers to take home and to cook. Hester has continuously used this mark in interstate commerce (including in this judicial district) since January 1982.

15. For many years prior to August 1982, Tyson and Hester (or its predecessors) have been direct and/or indirect competitors in the sale of various chicken products. Because of this long-standing rivalry, Tyson was aware of the existence of Hester's WING-DINGS product well prior to 1982. In this connection, Tyson is a giant, publicly-owned corporation that sells poultry products throughout the United States and many foreign countries. Upon information and belief, Tyson is the largest seller of poultry products in the world.

16. Upon information and belief, Tyson first adopted and used the mark WING FLINGS in August 1982 in connection with chicken products. Significantly, prior to that date,

Hester's WING-DINGS mark was brought to the attention of Tyson (by its trademark counsel) so that it is clear that Tyson had actual knowledge of Hester's mark before the first use of WING FLINGS.

17. On or about March 7, 1983, Tyson filed a trademark application in the United States Patent and Trademark Office (hereafter the USPTO) for the trademark WING FLINGS. This application was published for opposition purposes on April 17, 1984. At about the same time, Hester first became aware of Tyson's use of the WING FLINGS mark. As a result, on May 8, 1984, Hester filed a Notice of Opposition to the registration of WING FLINGS.

18. In response to this Notice of Opposition, the USPTO initiated an opposition proceeding. Thereafter, Hester and Tyson engaged in negotiations that eventually resulted in a settlement whereby Tyson agreed to withdraw without prejudice its pending application for WING FLINGS. This was accomplished on May 7, 1985 when Tyson expressly abandoned its WING FLINGS application. At that time, Hester concluded (erroneously) that the matter had been completely resolved and, accordingly, took no further action.

19. Totally unbeknownst to Hester, Tyson did not discontinue using the mark WING FLINGS. As a result, about six months later (in January 1986), Hester learned of Tyson's ongoing usage of that mark. In February 1986, Hester filed a civil action for trademark infringement and unfair competition in the United States District Court for the District of New Jersey.

20. Significantly, however, no cause of action for trademark dilution (like that set forth in New York Business Law §368-d) was presented to that Court.

21. The action was tried before a jury in early 1987. The

jury concluded that Hester was not entitled to relief under its claims for trademark infringement and unfair competition since it found no likelihood of confusion between Tyson's use of WING FLINGS and Hester's use of WING-DINGS. This finding was based upon Tyson's arguments to the jury that its WING FLINGS product is different from Hester's WING-DINGS product and that, at that time, the parties' goods are sold in very different channels of trade.

22. On the other hand, the jury found that Hester did not unreasonably delay in the filing of the lawsuit and that Tyson was not prejudiced by any delay in filing suit. Consequently, it rejected Tyson's assertion of laches and/or estoppel. In addition, the jury rejected Tyson's claim that the WING-DINGS mark is generic.

23. The finding of no likelihood of confusion was appealed by Hester. However, on November 27, 1987, the jury's verdict was affirmed by the United States Court of Appeals for the Third Circuit.

24. On or about April 25, 1988, Tyson filed another federal trademark application for the mark WING FLINGS with the USPTO. This application was published for opposition on October 25, 1988. The application sought to register the mark WING FLINGS for all "poultry" products.

25. On November 23, 1988, Hester filed a timely Notice of Opposition to the registration of that mark. Thereafter, as a part of the aforesaid Settlement Agreement, Tyson abandoned this application with prejudice.

26. On or about August 3, 1989, Hester filed a Complaint in this Court against Tyson and The Golub Corporation (d/b/a Price Chopper) alleging that the use of the mark WING FLINGS by the defendants constitutes trademark dilution contrary to New York and other states' trademark dilution law.

27. Just prior to the trial of this action, the parties reached a settlement. The terms of this settlement were incorporated in the aforesaid Settlement Agreement. In addition, the terms of the settlement were incorporated by reference in the Stipulated Order of Dismissal that was filed and entered in that action (Civ. Act. No. 89-CV-949) on April 9, 1992.

28. As is relevant to the present law suit, the Settlement Agreement provides that Tyson will discontinue all use of the WING FLINGS mark. More specifically, all usage of that mark by Tyson in connection with 5 pound product bags was to cease by no later than September 1, 1992 (see paragraph 1a) and all other usage by Tyson was to cease by no later than December 1, 1992 (paragraph 1b).

29. Upon information available to Hester and upon belief, Tyson has not discontinued all use of the WING FLINGS mark as was required by the Settlement Agreement and by the Stipulated Order of Dismissal which incorporated that Settlement Agreement. To the contrary, it is believed that Tyson has made and/or continues to make sales of WING FLINGS products contrary to the deadline dates of September 1, 1992 and December 1, 1992.

30. In addition, it is clear from the foregoing that Tyson has been and continues to be fully aware of Hester's objection to its continued usage of WING FLINGS. Indeed, bearing in mind the long period of legal disputes between the parties over the use of the WING FLINGS mark, the continued usage of the WING FLINGS mark after the deadline dates of September 1, 1992 and December 1, 1992 is willful and deliberate.

31. The willful and deliberate nature of these actions is further exemplified by the response of Tyson's counsel to an objection raised by Hester's counsel. More specifically, by a letter dated March 17, 1993, Hester's counsel advised Tyson's counsel of the continuing usage of the WING

FLINGS mark by Tyson. In addition, the letter demanded Tyson's voluntary accounting for the unlawful continued usage of the WING FLINGS mark. However, instead of responding in a reasonable manner, Tyson (through its letter of counsel dated March 19, 1993) "categorically refused" to provide any accounting. To the contrary, rather than merely searching its own files which will readily establish the unlawful usage of the WING FLINGS mark, Tyson put the burden on Hester to "investigate" the usage of that mark by Tyson throughout the United States. The arrogance of Tyson's actions is best summarized by the last sentence of Tyson's letter which, after refusing to review its own files, stated that "Tyson has better things to do with its time".

32. The foregoing response of Tyson makes it clear that Tyson is not willing to conduct a review of its own records to investigate the continuing unlawful usage of the WING FLINGS mark. Instead, the letter demonstrates the willful and deliberate nature of its actions by attempting to unfairly shift the burden to Hester.

33. In short, Tyson's response has left Hester with no option other than to either forfeit its most valuable trademark rights or to file this lawsuit. Due to the importance of the WING-DINGS mark to Hester (a small company to whom this mark is its most important asset), Hester had no real choice but to file suit.

34. Tyson's continued usage of the WING FLINGS trademark constitutes breach of contract. This breach of contract justifies the entry of preliminary and permanent injunctive relief barring all further use of the WING FLINGS mark, the destruction of all materials containing or displaying the WING FLINGS mark, and an award of damages (including, for example, both general and specific damages). Due to the refusal of Tyson to provide an accounting to Hester, the amount of damages cannot be calcu-

lated at this time. However, the damages are believed to amount to more than $150,000.00. In addition, the deliberate and willful nature of the breach justifies the award of Hester's reasonable attorneys' fees.

COUNT II FOR VIOLATION OF DISMISSAL ORDER

35. Hester realleges and incorporates herein the allegations of paragraphs 6-34.

36. Tyson's continued usage of the WING FLINGS trademark constitutes a violation of this Court's Stipulated Order of Dismissal that was entered in connection with Civil Action No. 89-CV-949. This violation justifies the entry of preliminary and permanent injunctive relief barring all further use of the WING FLINGS mark, the destruction of all materials containing or displaying the WING FLINGS mark, and an award of damages (including, for example, both general and specific damages). Due to the refusal of Tyson to provide an accounting to Hester, the amount of these damages cannot be calculated at this time. However, the damages are believed to amount to more than $150,000.00. In addition, the deliberate and willful nature of the violation of the Order justifies the award of punitive damages in the amount of $1,000,000 and the award of Hester's reasonable attorneys' fees.

COUNT III FOR TRADEMARK DILUTION

37. Hester realleges and incorporates herein the allegations of paragraphs 6-36.

38. The deliberate and intentional unauthorized use of the WING FLINGS mark by Tyson in connection with poultry products are likely to cause and/or have already caused dilution (i.e., a "whittling down" or "blurring") of the distinctive quality of Hester's WING-DINGS trademark contrary New York Business Law §368-d. As provided by

this statute, the purported absence of competition between the products and/or the purported absence of confusion does not preclude a finding of likelihood of dilution. Such unlawful acts are likely to continue unless enjoined by this Court.

39. In addition, these acts of trademark dilution violate other state dilution statutes (that are similar or substantially identical to New York Business Law §368-d), including: Alabama Code §8-12-17; Arkansas Code Ann. §4-71-113; California Bus. & Prof. Code §14330; Connecticut Gen. Stat. Ann. §35-11i(c); Delaware Code Ann. tit. 6, §3313; Florida Stat. Ann. §495.151; Georgia O.C.G.A. §10-1-451(b); Idaho Code §48-512; Illinois Rev. Stat. Ch. 140, §22; Iowa Code Ann. §548.11(2); Louisiana Rev. Stat. tit. 51, §223.1; Maine Rev. Stat. Ann. tit. 10, §1530; Massachusetts Gen. Laws Ann. Ch. 110B, §12; Missouri Ann. Stat. §417.061 (1); Montana Code Ann. §30-13-334; Nebraska Rev. Stat. §87-122; New Mexico Stat. Ann. §57-3-10; Oregon Rev. Stat. §647.107; Pennsylvania Cons. Stat. Ann. tit. 54, §1124; Rhode Island Gen. Laws §6-2-12; Tennessee Code Ann. §47-25-433; and Washington Rev. Code chap. 72, §10. Furthermore, the common law of at least the states of Michigan and Minnesota have substantially similar trademark dilution laws to that set forth in New York Business Law §368-d.

40. Tyson's continued usage of the WING FLINGS trademark constitutes trademark dilution and it justifies the entry of preliminary and permanent injunctive relief barring all further use of the WING FLINGS mark. In addition, the deliberate and willful nature of the Tyson's actions justifies the award of Hester's reasonable attorneys' fees.

COUNT IV FOR TRADEMARK INFINGEMENT

41. Hester realleges and incorporates herein the allegations of paragraphs 6-40.

42. Tyson's continued usage of the WING FLINGS trademark constitutes trademark infringement under 15 U.S.C. §1114(1) and at common law. It also justifies the entry of preliminary and permanent injunctive relief barring all further use of the WING FLINGS mark, the destruction of all materials containing or displaying the WING FLINGS mark in accordance with 15 U.S.C. §1118, and an award of Hester's damages and/or Tyson's profits in accordance with 15 U.S.C. §1117 and at common law. Due to the refusal of Tyson to provide an accounting to Hester, the amount of these damages or profits cannot be calculated at this time. However, they are believed to amount to more than $150,000.00. In addition, the deliberate and willful nature of Tyson's actions justifies a finding that this is an exceptional case wherein the damages or profits award should be trebled or increased to such a sum as the Court determines would be "just" in accordance with 15 U.S.C. §1117 and at common law. Finally, the deliberate and willful nature of the infringement justifies the award to Hester of its reasonable attorneys' fees in accordance with 15 U.S.C. §1117 and at common law.

COUNT V FOR UNFAIR COMPETITION

43. Hester realleges and incorporates herein the allegations of paragraphs 6-42.

44. Tyson's continued usage of the WING FLINGS trademark constitutes unfair competition and/or false designations of origin and description under 15 U.S.C. §1114(1) and at common law. It also justifies the entry of preliminary and permanent injunctive relief barring all further use of the

WING FLINGS mark, the destruction of all materials containing or displaying the WING FLINGS mark in accordance with 15 U.S.C. §1118, and an award of Hester's damages and/or Tyson's profits in accordance with 15 U.S.C. §1117 and at common law. Due to the refusal of Tyson to provide an accounting to Hester, the amount of these damages or profits cannot be calculated at this time. However, they are believed to amount to more than $150,000.00. In addition, the deliberate and willful nature of Tyson's actions justifies a finding that this is an exceptional case wherein the damages or profits award should be trebled or increased to such a sum as the Court determines would be "just" in accordance with 15 U.S.C. §1117 and at common law. Finally, the deliberate and willful nature of the unfair competition justifies the award to Hester of its reasonable attorneys' fees in accordance with 15 U.S.C. §1117 and at common law.

WHEREFORE, Hester demands:

(a) A preliminary and permanent injunction against Tyson restraining it and its business enterprises, employees, agents, attorneys and privies, as well as all persons in active concert or participation with it, from the continued wrongful use in connection with food products or services of the name or mark WING FLINGS, as well as the use of any other name or mark likely to dilute or tarnish the distinctive nature of the WING-DINGS mark, either alone or in combination with any other word.

(b) An order that all advertising materials, labels, menus, printed materials, stationery, brochures, promotional items, invoices, billing statements, posters or the like bearing the wrongful representation of WING-DINGS (such as WING FLINGS), alone or in combination with any other words, in the possession of Tyson shall be immediately delivered up and destroyed.

(c) An accounting so as to award to plaintiff the appropriate damages and/or profits as provided by law.

(d) An award of trebled and/or increased damages/profits due to the willful and deliberate nature of Tyson's actions.

(e) An award of punitive damages in an amount of at least $1,000,000.

(f) An award to plaintiff of its reasonable attorneys fees.

(g) Such other and further relief as the Court deems just and proper.

HESTER INDUSTRIES, INC.,

By its Attorneys

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APPENDIX K

[Letterhead of ISEMAN, CUNNINGHAM, RIESTER & HYDE]

April 3, 1992

via Federal Express

Clerk, U.S. District Court
Northern District of New York
U.S. Court House and Federal Building
15 Henry Street
Binghamton, New York 13901

Re: Hester v. Tyson, et al.
Judge McAvoy, Civil Action No. 89-CV-949

Dear Sir or Madam:

I enclose the Settlement Agreement and Stipulated Order of Dismissal in the captioned, together with a proposed Order for the Court's signature. If the Court approves same, please enter the Order in your office.

Also enclosed are five extra copies of the Stipulated Order of Dismissal which I would ask that you date stamp and return to me in the self-addressed stamped envelope.

Very truly yours,

ISEMAN, CUNNINGHAM, RIESTER & HYDE

/s/ Frederick C. Riester
Frederick C. Riester

FCR:pms
Enclosures